

City of Sugar Land, Texas



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended
September 30, 2004

Officials Issuing Report

Allen Bogard
City Manager

David Ellison
Assistant City Manager

Claire Manthei
**Director of Finance
and Administration**

Dianne F. Stanford
Controller

MAYOR AND CITY COUNCIL



David G. Wallace
Mayor



Thomas Abraham
Councilmember
At Large, Position One



Daniel O. Wong
Councilmember
At Large, Position Two



Dennis C. Parmer
Councilmember
District One



Cyril Hosley
Councilmember
District Two



Russell C. Jones
Councilmember
District Three



Michael S. Schiff
Councilmember
District Four

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Year Ended September 30, 2004

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CITY OF SUGAR LAND

January 25, 2005

Honorable Mayor and
Members of the City Council
City of Sugar Land, Texas

The comprehensive annual financial report of the City of Sugar Land, Texas, for the fiscal year ended September 30, 2004 is hereby submitted. The responsibility for both the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with the City. We believe the enclosed data to be accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the various funds and component units of the City. All disclosures necessary to enable the reader to gain an understanding of the City of Sugar Land's financial activities and condition have been included. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Standards Board (GASB) and have been audited in accordance with generally accepted auditing standards.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of these costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Sugar Land's financial statements have been audited by Sandersen Knox & Belt, L.L.P., a firm of licensed certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Sugar Land's financial statements for the fiscal year ended September 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The Single Audit was performed in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget's Circular A-133. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in a separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditors' report.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the Government Finance Officers Association Certificate of Achievement, the City's organizational chart, and a list of principal officials. The financial section includes Management's Discussion and Analysis, the basic financial statements, the combining and individual fund financial statements and schedules, as well as the independent auditors' report on the basic financial statements. The statistical section, which is unaudited but reviewed by the independent auditors, includes selected financial and demographic information, generally presented on a multi-year basis.

PROFILE OF THE GOVERNMENT

The City of Sugar Land has adopted a Council-Manager form of government. The Council is comprised of a mayor and six council members. The Mayor and two Council members are elected at large, and the remaining four are elected by district. All elected officials serve two-year terms. No person shall be elected to more than four consecutive regular two-year terms as mayor and four consecutive regular two-year terms as a council member. The City Manager is appointed by Council and is responsible for implementation of Council policy and all day-to-day operations of the City.

The Council appoints many residents who volunteer their expertise, experience, and time to serve on various boards and commissions. These boards and commissions make recommendations relative to special projects, issues, and planning for the future. The Planning and Zoning Commission and the Parks and Recreation Advisory Board meet on a regular basis. Other boards and committees that meet as needed include the Zoning Board of Adjustment, Building Codes Board of Adjustment, Animal Control Advisory Board, and Aviation Policy Advisory Board. Specialized committees such as the Redistricting Advisory Committee, Comprehensive Plan Steering Committee, Citizens Ethical Standards Task Force, and Charter Review Committee are convened for specific projects and meet only until a recommendation is formulated and presented to City Council. This community spirit and teamwork is common to the citizens of Sugar Land.

A full range of municipal services is provided by the City of Sugar Land including public safety (police and fire protection); residential solid waste; water and wastewater utilities; public improvements; repair and maintenance of infrastructure; recreational and community activities, and general administrative services. In addition, the City owns, operates, and serves as the fixed base operator of a general aviation airport. As an independent political subdivision of the State of Texas governed by an elected Mayor and Council, the City is considered a primary government. In accordance with standards established by the Governmental Accounting Standards Board (GASB), the City reports all funds for which the City, as the primary government, is financially accountable. The Sugar Land Development Corporation (SLDC), the Sugar Land 4B Corporation (SL4B), the Sugar Land Town Square Tax Increment Reinvestment Zone (TIRZ), and the Sugar Land Town Square Development Authority (SLTSDA) are considered to meet the criteria of component units and, therefore, have been included in the report as discretely presented component units. The SLDC and the SL4B Corporations were created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and related development activities on behalf of the City. The TIRZ was created in December of 1998 for the purposes of development and redevelopment in the Zone Area. The City participates in the Zone by contributing tax increments produced in the Zone to the Tax Increment Fund. The SLTSDA was created in October 2001 to facilitate the development of the Sugar Land Town Square.

Mission statement

The mission of the City of Sugar Land, as adopted by the Council, staff, and employees, is to enhance the quality of life in the community by a commitment to excellence in the delivery of public services.

Goals for the City

The City's adopted goals for fiscal year 2003-2004 are: A Well-Planned Community, Safest City in the Area, Strong Local Economy, Responsible City Government, and Mobility for People. The goals provide the framework for the actions taken to shape the City's future. They are encompassed in all activities and guide the efforts of the City staff. A new goal, Livable Neighborhoods was adopted during fiscal year 2003-2004 and incorporated into the budget planning process for fiscal year 2004-2005.

City logo

The City Council adopted a new logo for the City in October 2004. The new logo offers a consistent image for the City of Sugar Land, respecting our past while portraying the dynamic nature of our community.

Geographic description

The City of Sugar Land is located in eastern Fort Bend County, Texas and is approximately nineteen miles southwest of downtown Houston. The City was incorporated on December 29, 1959, encompassing only 2,265 acres. Through a series of annexations, the City grew to its fiscal year 2003-2004 size of approximately 29.05 square miles or 18,592 acres and estimated population of 69,129 – a 10.4% increase since the 2000 census. Including the City's extra-territorial jurisdiction (ETJ), the City encompasses 54.94 square miles or 35,161 acres.

ECONOMIC CONDITION AND OUTLOOK

Although the regional economy has seen a downturn over the last several years, the City of Sugar Land has seen consistent growth in both residential and commercial development, including steady growth in both assessed valuation and sales tax receipts. The City continues to experience economic growth that will be sustained over time with the continued development of Sugar Land Town Square, University of Houston-Sugar Land campus, and a 120,000 square foot planned expansion of First Colony Mall. A new mixed-use development, the Lake Pointe Town Center, is bringing 186 acres of new commercial, retail and residential development. The 2,000-acre mixed-use development of the master-planned Newland Communities was annexed into the City in July 2004. Development of this tract is expected to begin in early 2005, and will include residential, commercial, office and targeted research and development companies. The fiscal year 2003-2004 residential to commercial ratio of the tax base is 65/35, respectively. Although the City expects to reach build-out for planned residential development within the next year or two, excluding Newland Communities and Lake Pointe Town Center, there is available land for commercial development. Ultimate build-out within the City limits based on current zoning would result in a land-use mix of 72% residential and 28% commercial.

New retail businesses continue to make Sugar Land their home. Jos. A. Banks, Sharper Image, Bombay Furniture, David's Bridal, DSW Shoe Warehouse, and many smaller retail businesses opened stores during fiscal year 2003-2004. The sales tax generated by our retail trade accounted for approximately 65% of total sales tax revenues; the business technology/manufacturing sector and utility sector accounted for the remaining 35%. Base sales tax receipts for fiscal year 2003-2004 were conservatively budgeted to increase 3.34% due to the recent economic slow down. However, the base sales tax excluding one-time payments actually increased 6.17% over fiscal year 2002-2003. In addition to the new retail, two large fitness centers, Houstonian Lite and Lifetime Fitness, Prince Plastics, UBS Sugar Land and several new dining establishments opened. Although it did not quite make it into fiscal year 2003-2004, the much-anticipated new city hall located on Town Square opened in November of 2004.

The value of all building permits issued during fiscal year 2003-2004 totaled over \$158.7 million, representing a decrease of 1.6% over the previous year. The value of new residential construction decreased by 28.8% over last year, and the new commercial value increased by 16.4%. The permitting of the new Lake Pointe Town Center plus several large bank plazas, churches and a school have increased the new commercial

value. The number of new residential housing permits decreased over last year by 24.4% from 324 to 245. The average value of new residential construction was \$192,242, a decrease from last year's value of \$204,113. With the annexation of the 2,000-acre Newland Communities, there is more land available for residential development. This new development will begin in early 2005. There is available land for commercial development within the City and its extra-territorial jurisdiction.

New economic development projects include the redevelopment of an existing building by Thermo Electron, a 100,000 square ft. office/research facility by Yokogawa Corporation of America, Inc., a 300,000 square ft. warehouse expansion by Tramontina and an additional office building for Schlumberger.

FINANCIAL MANAGEMENT

Budgeting controls are established by the City's Inter-Departmental Policy and Procedure Number BU-101. The objective of this policy is to ensure compliance with legal provisions of the annual budget, City charter, codes, and state statutes. Activities of the General, Debt Service, and Special Revenue Funds are included in the annual appropriated budget. Project-length financial plans are adopted for the Capital Projects' Funds, and financial operating plans are established for Enterprise Funds. Budgetary control, the level at which expenditures cannot legally exceed the appropriated amount, is established at the department level within an individual fund. The City also utilizes an encumbrance accounting system to aid in accomplishing budgetary control. Open encumbrances are reported as reservations of fund balance at September 30, 2004. These encumbrances are re-appropriated as part of the following year's budget. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Long-range financial planning

The City adopts a one-year budget, including a five-year capital improvement program, through its fully coordinated long-range financial planning process. The budget implements strategies, both financial and operational, identified through the strategic and long-range planning process to meet existing challenges and to effectively plan for future needs. Decisions are not based solely on current conditions but on the long-term welfare of the community. The budget is developed and resources allocated based on the vision, mission, and goals of the City.

The City has adopted Financial Management Policy Statements (FMPS) that establish and document a framework for fiscal decision-making and that ensure that financial resources are available to meet the present and future needs of its citizens. The FMPS along with the City's long-range financial planning helps to ensure prudent budgeting and fiscal health. One benefit of this is reflected in the City's strong bond ratings as further described in Management's Discussion and Analysis.

Based on the strengths, challenges, priorities and gaps determined during strategic planning sessions, the following financial strategies were incorporated into the City's long-range financial plan as well as the budget for fiscal year 2005:

- Lower the tax rate to the effective rate plus 3% when financially feasible
- Implement 1999 bond referendum without a tax rate increase
- Conservative budgeting
- Manage growth of base budget, protect core services, consider service adjustments
- Self-supporting enterprise funds
- Continue refining long-range financial plans and financial policies
- Plan for future bond referendum
- Set aside one-cent within existing tax rate for drainage
- Begin to set aside funding for surface water conversion

Other long-range planning efforts

The long-range plan for the Utility Fund shows a need for an 18.6% revenue increase over the next five years. Increases are needed to support operations, annual debt service, contributions to pay-as-you-go capital projects, increasing the transfer for annexed debt to 80% by fiscal year 2006-2007, funding surface water capacity, and funding a \$39.97 million five-year capital improvement program with a combination of cash and debt issuance.

The five-year forecast for the General Fund maintains current service levels, adds additional positions based on population growth, and funds the operational impacts of the five-year CIP. The fund meets policy objectives throughout the forecast, including a reduction in sales tax for operations from 54.7% in fiscal year 2004-2005 to 50.6% in fiscal year 2008-2009. To fund increasing fund balance policy requirements, the forecast assumes that the proceeds from the sale of the previous City Hall will be credited to the General Fund as a non-recurring revenue to fund a \$2.2 million increase to the fund balance. The bonds authorized with the last bond election are projected to all be sold by 2007, therefore, a future bond referendum will be needed in 2007 or 2008.

The Public Works Department conducted a pilot program studying a pavement management program. Their next step will be to request proposals for data collection and system integration consultants to assist with implementation of the program. This pavement management program will provide information for budget forecasting and planning for future CIP projects. Consideration is also being given to the possible expansion of a management program to other City capital assets.

Cash Management policies and practices

The City's Investment Policy, which is annually reviewed and adopted by the City Council, is in compliance with the Public Funds Investment Act. The act was adopted as House Bill 2459 in the Texas Legislature on Sept. 1, 1995 and most recently amended in 2003. This act has resulted in significant procedural and substantive changes in the manner in which public funds of local governments in Texas may be invested and otherwise managed.

The City maintains diversification of its investments with purchases of United States Government backed treasury notes and bills and U.S. agencies held in safekeeping by a third party agent. As of September 30, 2004, approximately \$26.9 million or 48 percent of the City's portfolio was held in TexPool, a privately administered local government investment pool, 48 percent or \$27 million was invested in U.S. Treasuries and U.S. Agencies and 4 percent was in a sweep money market mutual fund account with the City's depository bank. Investment pool rates increased from 1.03 percent to 1.54 percent at fiscal year end. At September 30, 2004, the yields on the U.S. Treasuries and Agencies ranged from 1.188 percent to 2.575 percent, with maturities that ranged from one to fourteen months. Per the City's investment policy, the longest allowed maturity is two years. The weighted average maturity was 98 days and the weighted average yield to maturity was 1.64 percent compared to 1.09 percent one year ago.

The total interest earnings for all City governmental (modified accrual) and enterprise (full accrual) funds was \$867,834. This includes the City's component units. Even though this is 33% less than last year, it is 120% of the amended budget. In addition to declining interest rates during the fiscal year, there were significantly lower funds available to invest as bond funds were spent. The City will continue to manage and operate its portfolio as stipulated in its Investment Policy, which includes the prioritization of considerations regarding safety, liquidity, and return on investment.

EMPLOYEE BENEFITS AND RISK MANAGEMENT

The City has established internal service funds for the group health insurance and benefits program for employees and dependents, and for the funding of risk of loss related to deductible, coinsurance, and uninsured property liabilities. The City's group health insurance plan is with an indemnity insurance program.

Beginning in January 1993, the City has required employees to contribute toward dependent group health coverage and has progressively increased the employee contribution for dependent health coverage. The City also provides dental, long-term disability and life insurance for its employees. In fiscal year 1999-2000, the City adopted a maximum benefit burden policy of 40% to actual salaries; the actual benefit burden for fiscal year 2004 was 37.31%.

The City, in an effort to contain the cost of general liability and property insurance, funds deductible coinsurance and uninsured property losses through contributions from the General and Enterprise Funds. This past year the City incurred losses of \$312,644, of which \$249,479 was recovered from insurance. The net assets decreased from \$160,188 to \$148,587

RETIREMENT AND OTHER POST EMPLOYMENT BENEFITS

The City provides pension benefits through a statewide retirement plan for municipal employees – Texas Municipal Retirement System (TMRS). This is a non-traditional, joint contributory, defined benefit plan administered by TMRS, an agent multiple-employer public employee retirement system. There are no other Post Employment Benefits.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

The goals for the City adopted by Council provide the framework for all actions, and they are a part of all activities and efforts by City staff.

Well Planned Community

- **Newland Communities:** Infrastructure and levee improvements began for this 2,000-acre master-planned community. The acreage was annexed in July 2004. The community will include residential, commercial, office and targeted research and development components.
- **Land Use Plan:** The process to update the City's Land Use Plan began in the summer of 2003. The Planning and Zoning Commission and staff incorporated input from citizens and property owners, economic development information, and future infrastructure needs. The Commission's recommendation was presented to Council in August 2004 and approved by Council in November 2004. The plan will be used in the review and analysis of future development proposals and will form the basis of assumptions in the City's future studies and infrastructure plans.
- **Annexation Planning:** City Council approved an annexation and service policy for developed areas in Sugar Land's extraterritorial jurisdiction (ETJ). The policy provides options for annexation and direction regarding cost recovery for services to the ETJ. Strategic Partnership Agreements (SPA) serve as the basis for services provided to ETJ municipal utility districts. The policy is based on the principle that annexation should be voluntary, and that there is no "one size fits all" approach for annexation of ETJ MUDs.

Safe City

- **Police Department Accreditation:** The Sugar Land Police Department was re-accredited by the Commission on Accreditation for Law Enforcement Agencies, Inc. (CALEA). The process included an intensive examination of policy and procedures, management, operations and support services to determine if the department is complying with CALEA's nationally recognized law enforcement practice standards.
- **Homeland Security Funding:** Sugar Land's strategic planning efforts created a focused,

comprehensive, organization-wide plan to accomplish projects critical to homeland security. This aggressive effort resulted in more than \$1.3 million in homeland security grant funding during 2004. Priorities for the funding were interoperability communication, hazardous material response and mutual aid agreements. A variety of equipment has been acquired including new radios, haz-mat suits, a haz-mat trailer as well as a heavy-duty hazardous materials response vehicle.

- **Police Management Study:** In an ongoing effort to improve City services, a consultant conducted a police management study. The assessment included recommendations for improving operating efficiency and effectiveness in areas related to staffing, business processes and procedures, hours of operation and facilities. The City continues to implement measures related to the study.
- **Fort Bend County Haz-Mat Team:** Sugar Land took a major role in the development of a countywide hazardous materials response team, which will be located at Sugar Land Fire Station #5. The unit will be assigned for primary response in East Fort Bend County, with secondary response in surrounding counties. Sugar Land will have the highest technical response level for hazardous materials.

Strong Local Economy

- **Sugar Land Town Square:** The development of the Town Square continues with the opening of several upscale restaurants, retail establishments, and high-end condominiums. As bookends to the fiscal year, the Sugar Land Marriott Hotel and Conference Center opened at the beginning of the fiscal year, and the new City Hall opened just after the fiscal year end, in November of 2004.
- **Expansion of First Colony Mall:** First Colony Mall first opened in 1996 and is now undergoing a major expansion, adding 40,000 square feet of restaurant space and 80,000 square feet of retail. In addition, there will be three parking garages and a pedestrian connection to the Sugar Land Town Square.
- **Business Expansions:** **Tramontina** began a 300,000 square-foot expansion. The expansion includes facilities and taxable improvements of \$9 million and an inventory of \$11 million. **Schlumberger** is adding a 55,000 square foot office building and 50 new jobs. **Applied Optoelectronics** is building a 14,400 square foot expansion for research and manufacturing, adding 150 new jobs.
- **Airport Terminal:** A general contractor was selected and design completed for a new 20,000 square-foot terminal. Over the past three years, the number of corporate aircraft using Sugar Land Regional Airport has steadily increased. A new, larger terminal is needed to serve the needs of the increased traffic.

Responsible City Government

- **Fiscal Year 2004-2005 Budget:** Council approved a \$116.5 million balanced budget for fiscal year 2004-2005, lowering the tax rate by 0.00272 cents to 32.568 cents per \$100 assessed valuation. Based on a Texas Municipal League survey, Sugar Land has the second lowest tax rate among cities with populations from 56,223 to 114,934. In addition to lowering the tax rate, Council approved an increase in the over-65 homestead exemption from \$62,754 to \$64,870. This 3.37 percent increase relates directly to the increase in residential valuations on the 2004 tax roll. Also increased was the disabled persons exemption from \$10,000 to \$64,870. The 2004-2005 budget funds current services, beefs up priority core services, funds mandates, and meets all reserve and bond coverage requirements. It also funds pay-as-you-go capital improvements. The enhancements address safety, citizen communication, and planning for the future.
- **Budget Award:** The fiscal year 2003-2004 annual budget received the Distinguished Budget Presentation Award from the Government Finance Officers Association. In order to receive this award, a government must publish a budget document that meets program criteria as a policy document, as an operation guide, as a financial plan, and as a communication device. This is the

eighth consecutive year for the City to receive the award.

- **Connectivity:** To enhance communication with residents, Sugar Land implemented a new customer response management system. This provides a more consistent way to handle, log and respond to residents. Another avenue to enhance communication is the new cable television channel, SLTV16, available to cable subscribers living within the city limits. Programming includes a municipal bulletin board, providing City-related information, such as construction updates, public safety programs, City job postings and more. Also available on the cable channel are City Council meetings.
- **Sugar Land 101:** The City launched Sugar Land 101, a unique course designed to familiarize participants with the structure, function and purpose of City Government. The course includes 10 weekly evening sessions and two citywide tours. Participants are introduced to more than 15 different City departments and learn first-hand how each serves the community. Equipped with this knowledge and understanding, participants can better serve the community through involvement on City boards, commissions and committees, as well as homeowner associations and other civic groups.
- **Strong Financial Performance:** Standard & Poor's included Sugar Land on a list of six cities across the U. S. that have managed their finances well through the most recent economic downturn and successfully limited the effects of economic depression cycles.

Mobility for People

- **U.S. Highway 59 Expansion:** The State completed its main lane expansion on the three-and-one-half-mile stretch of U.S. 59, which now includes a total of eight continuous northbound and southbound main lanes from State Highway 6 to southwest Houston. Capacity was improved at all major intersections under the freeway, including U-turns. Ornamental highway signs were pre-wired to accommodate future technology upgrades intended to improve traffic flow.
- **University Boulevard:** The extension of University Boulevard was completed, providing motorists in and around First Colony with a new route to U.S. Highway 59. The 1.6-mile four-lane curb-and-gutter road also provides access to the University of Houston System at Sugar Land.
- **U.S. 90A/U.S. 59 Interchange:** This tri-level interchange, begun in 1999, was completed, allowing drivers to exit U.S. 59 to frontage roads that adjoin U.S. 90A. It features U.S. 59 at the top level, depressed frontage roads at the lower level, and U.S. 90A main lanes and railroad tracks at ground level.

CONTINUING AND FUTURE INITIATIVES

Well Planned Community

- **Newland Communities:** This master-planned community will include residential, commercial, office and targeted research and development components. It will feature a traditional Village Center neighborhood concept consisting of mixed-use and commercial developments. There will be 150 acres of public and private parks and recreation areas and a 95-acre proposed research and development area.
- **Brazos River Park:** Phase one of the 420-acre Brazos River Park will focus on trails, picnic facilities, playgrounds, multi-use sports fields, access to the river for canoeing, roads and parking. Also to be included in a future phase will be an amphitheater, a disk golf area, a dog park, and a cricket field. Bonds approved by citizens in 1999 will be utilized for the design and construction.
- **Drainage Management:** Management of drainage needs within the City limits was identified as one of the core service needs of the City. The drainage master plan will identify projects and priorities. One cent of the 2004 tax rate is designated to fund operational and capital projects related to drainage management, allowing the City to be more aggressive in coordination of projects with regional benefit.

Safe City

- **Police Staffing:** The fiscal year 2004-2005 budget includes the addition of eleven police positions, including five working supervisors, three support positions, and three management positions to improve operational training, support, supervision, accountability, and management.
- **Police Management Study:** The City continues to implement measures related to the management study. A new organizational structure will move the department from a three-bureau structure to a four-bureau structure, utilizing the eleven new positions. Also a six-week internal training academy for new hires will be implemented.
- **Electronic Ticket Writers:** The electronic ticket writers allow an officer to swipe a driver's license through a hand-held unit, which looks like a Palm Pilot, instead of handwriting the information. The motorist signs with a digital pen device and the ticket is created on-site. The information is electronically transmitted to the court for processing. The ticket writers reduce the possibility for error and increase efficiency by police officers and municipal court personnel. The ticket writers are to be implemented in early 2005.

Strong Local Economy

- **Yokagowa Corporation of America:** Yokagowa announced plans to construct a 100,000 square-foot office and manufacturing facility on 18 acres located within the Sugar Land Business Park. The facility will employ 175 personnel in the first year, growing to 350 employees by year five. It will provide an estimated \$11 million to the City's tax base.
- **Thermo Electron Corporation:** Thermo Electron announced plans to locate its process instruments business in Sugar Land, a project that will bring more than 230 jobs and \$20 million in capital investment to the City. The company has selected an existing 150,000 square-foot facility as the site for its Process Systems Business unit, as well as the world headquarters for its Process Instruments Division. The products will be highly technical, analytical instruments often coupled with other products produced by Thermo.
- **Memorial Hermann Hospital:** The hospital system has announced its intention to build a new \$93 million hospital and professional building within the City's ETJ. The completion is planned for 2006, bringing more jobs for the local economy and expanded health care services for the residents.
- **Sugar Land Regional Airport:** Construction on a new, larger terminal with enhanced amenities will begin in early 2005 to better serve the needs of the Airport's growing number of corporate aviation customers. Building on its reputation for first-class accommodations, the airport is planning a 20,000 square-foot terminal featuring upgraded amenities, such as sleeping quarters, offices, a television lounge, a workout room and showers for pilots; an executive lounge; conference and meeting rooms; retail shops; and a data and communications center. Completion is expected by early 2006.

Responsible City Government

- **Citizen Survey:** The City will be continuing its bi-annual citywide telephone survey program in fiscal 2004-2005. An independent survey firm will question a statistically accurate number of residents on their satisfaction with all City services. The questions will relate to park and street conditions; City services such as recreational, emergency, utility, animal control, waste management, and code enforcement; quality of life issues; and communication between the City and its citizens. The data gathered will be used to evaluate current services and make improvements.
- **User Fee Revisions:** The user fee philosophy adopted by the City states, "The City shall establish user fees that recover the cost for services that benefit specific users. Where services provide a general public benefit, the City shall subsidize those services through property and sales tax and other revenue sources." Parks and Recreation and Development Services fees were the first focus for review. For fiscal year 2004-2005 the focus will be on the Police Department and Development Inspection.

- **Debt Management - Refunding:** The City continues to monitor the market in order to refund existing debt at lower interest rates. The City anticipates refunding nine issuances in fiscal year 2004-2005 for an anticipated annual debt service savings of \$1.1 million over sixteen years. Net present value benefit is anticipated to be approximately \$900,000.

Mobility for People

- **U.S. Highway 90A Expansion:** During the design phase of the roadway expansion, Sugar Land worked closely with the State to add capacity to intersections, accommodate future railroad crossing quite zones, and include aesthetic enhancements. The roadway will be expanded to four lanes in each direction and construction is scheduled to begin in 2005.
- **State Highway 6 Expansion:** The construction of the expansion is anticipated to begin in 2006. The State Highway 6 main lanes will pass over University Boulevard, U.S. Highway 90A and the railroad, with frontage roads remaining at ground level. The overpasses will enable motorists to bypass the intersections and railroad, avoiding delays.
- **U.S. 59 Phase II:** Construction on Phase II and the final segment to U.S. Highway 99 began in late 2004. The expansion will widen the roadway to four lanes in each direction, with bi-directional HOV/diamond lanes, and three-lane frontage roads in each direction. Also included will be new frontage road bridges over the Brazos River and the reconstruction of two bridge structures crossing U.S. 59.

Livable Neighborhoods

- **Best Place to Live:** Sugar Land was named one of the country's top 100 places to live for 2004. HomeRoute, a national real estate marketing company, identifies top American cities each year through its Relocate-America program. Cities are selected based on educational opportunities, crime rates, employment, and housing data.
- **Healthy Neighborhood Initiative:** The City continues to work toward creation of a neighborhood communications structure. This year, a neighborhood network of homeowner and neighborhood association representatives was updated and refined. A Neighborhood Response Team (NRT) was assigned the responsibility of addressing neighborhood issues.

INDEPENDENT AUDIT

The City Charter and state statutes require an independent audit to be made, by a certified public accountant, of all accounts of the City for the fiscal year ending on the 30th day of September. The auditors' report shall be filed with the City Secretary within one hundred and twenty (120) days after the close of such preceding year. The certified public accountant shall be selected by the City Council, shall have no direct personal interest in the financial affairs of the City, and shall report in writing to the Council. The Independent Auditors' Report of Sandersen Knox & Belt, L.L.P. has been included in the financial section of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in the Financial Reporting to the City of Sugar Land, Texas, for its Comprehensive Annual Financial Report for the year ended September 30, 2003. This was the twentieth consecutive year that the government has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current

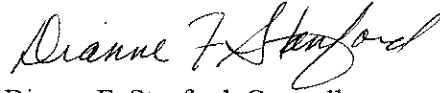
ACKNOWLEDGEMENTS

The preparation of this report, on a timely basis, was accomplished with the expertise and dedicated services of the entire staff of the Finance Administration Department and the individual contributions of Assistant Controller William Peña and Accounting Manager Alka Shah. We express our sincere appreciation to these individuals who have continually demonstrated their professionalism and excellent skills and abilities in the management of the finance function. We also thank the Mayor and members of the City Council for their continued support in planning and conducting the financial operations of the City in a responsible and progressive manner.

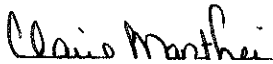
Respectfully submitted,



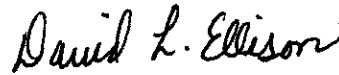
Allen Bogard, City Manager



Dianne F. Stanford, Controller



Claire Manthei, Director of Finance/Administration



David Ellison, Assistant City Manager

City of Sugar Land, Texas

PRINCIPAL OFFICIALS

September 30, 2004

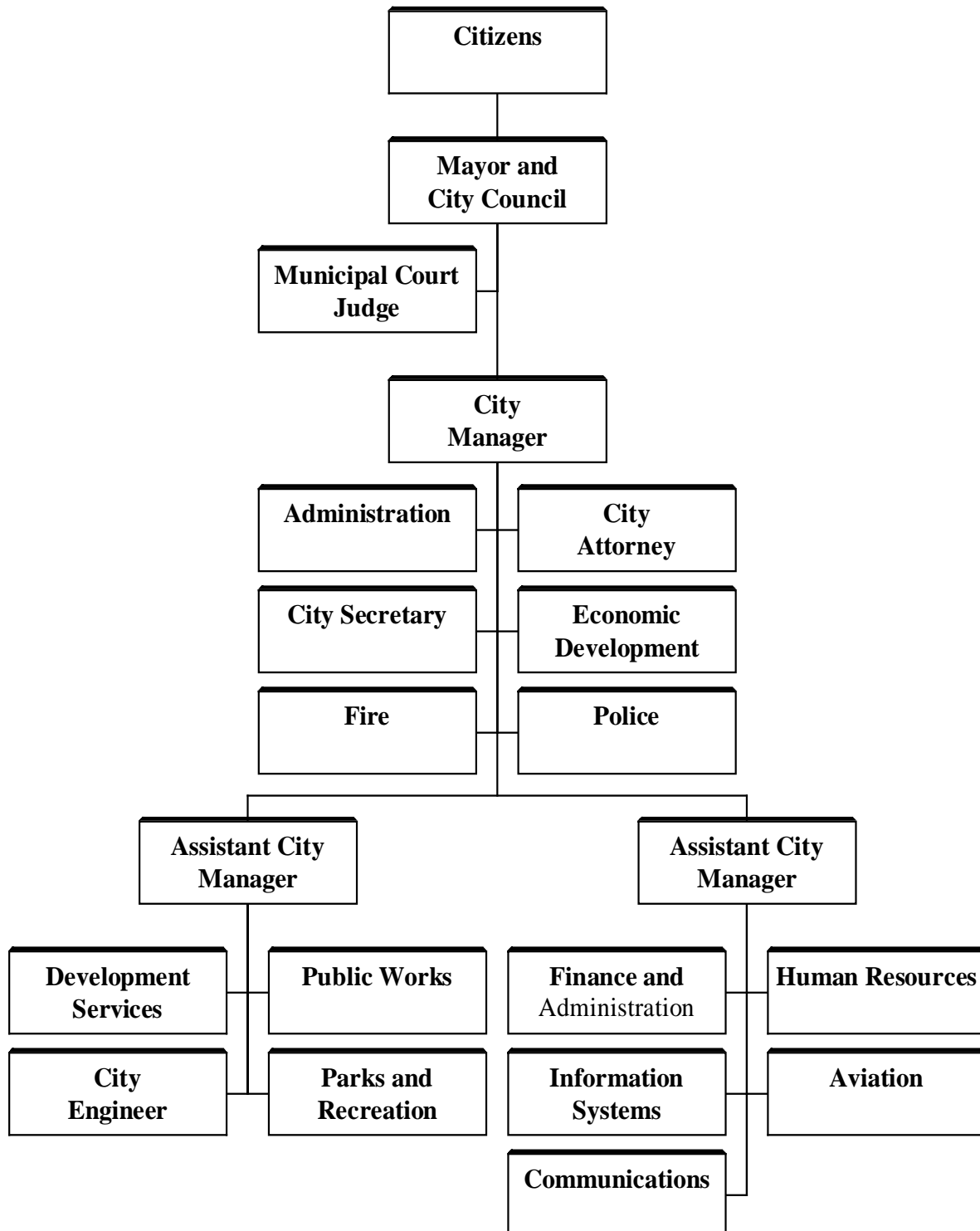
City Officials	Elective Position	Term Expires
David G. Wallace	Mayor	2006
Thomas Abraham	Council Member at Large - Position One	2006
Daniel O. Wong	Council Member at Large - Position Two	2006
Dennis C. Parmer	Council Member District One	2005
M. Cyril Hosley	Council Member District Two, Mayor Pro Tem	2005
Russell C. Jones	Council Member District Three	2005
Michael S. Schiff	Council Member District Four	2005

Key Staff	Position
Allen A. Bogard	City Manager
David L. Ellison	Assistant City Manager
Paul A. Hofmann	Assistant City Manager
Claire Manthei	Director, Finance Administration
Glenda A. Gundermann	City Secretary
Joe D. Morris	City Attorney
Lisa Womack	Police Chief
Dannie Smith	Fire Chief
Dianne F. Stanford	Controller

City of Sugar Land, Texas

ORGANIZATIONAL CHART

Fiscal Year 2003 - 2004



City of Sugar Land, Texas
Certificate of Achievement for Excellence in Financial Reporting
September 30, 2003 (prior fiscal year)

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Sugar Land,
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council
City of Sugar Land, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sugar Land, Texas, (the "City") as of and for the year ended September 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sugar Land, Texas, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

The management's discussion and analysis on pages 9-18 and other required supplementary information on page 68 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City of Sugar Land, Texas, as listed in the table of contents. The introductory section, other supplementary information, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements within the other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Sugar Land, Texas
November 29, 2004

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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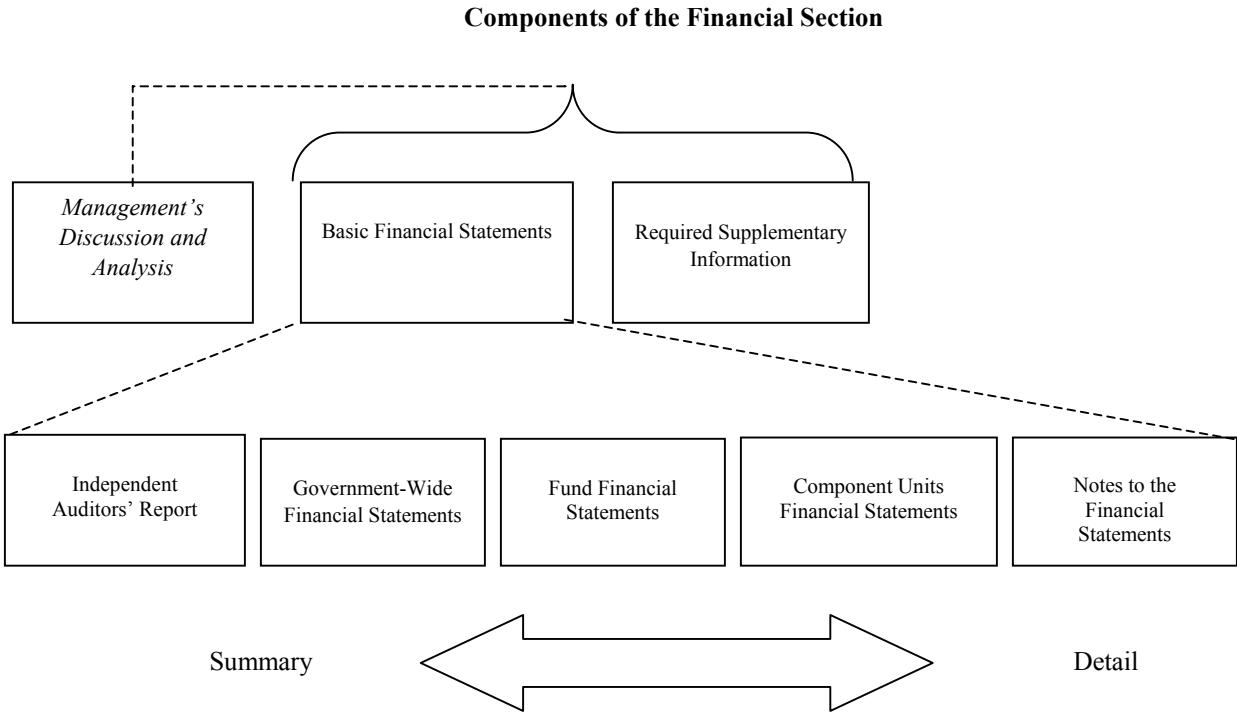
The following discussion and analysis of the City of Sugar Land's financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2004. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net assets excluding component units, on the government-wide basis, totaled \$221.5 million at September 30, 2004 (Exhibit A-1), an increase of \$11.7 million from 2003.
- On a government-wide basis for governmental activities, the City had expenses net of program revenue of \$37.0 million. General revenues of \$46.9 million (Exhibit A-2) exceeded expenses net of program revenue by \$9.9 million (change in net assets).
- The City had originally budgeted for a reduction of the General Fund balance of \$494,312 (Exhibit A-6), on a current financial resource basis, but had an actual increase of \$810,170 (Exhibit A-4).
- The City had one bond issue during the 2004 fiscal year:
 - General obligation bonds - On February 17, 2004, the City issued \$5.435 million, in general obligation bonds with interest rates ranging from 2.5% to 4.0%. The bonds, which will mature incrementally over the next 20 years, will be used for the construction of street and drainage improvements, park improvements, and reimbursements of infrastructure costs to developers within annexed municipal utility districts pursuant to agreements between the developers and now dissolved districts.

USING THE FINANCIAL SECTION OF THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report consists of three sections: introductory, financial and statistical. As the following chart shows, the financial section of this report has three components - *management's discussion and analysis* (this section), the *basic financial statements* and *required supplementary information*.



GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City as a whole and about its activities in a way that helps answer the question of whether the City is better off this year as compared to last year. These statements include all assets and liabilities on the accrual basis of accounting, which is similar to the basis of accounting used by most private-sector entities. All current year revenues and expenses are taken into account regardless of when the cash is received or paid.

The Statement of Net Assets presents information on all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, the increase or decreases in net assets provides one indicator as to whether the City's financial health is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three types of activities:

Governmental Activities - Most of the City's basic services are reported here such as police, fire, public works, community development and general administration. Property taxes, sales taxes and franchise fees finance most of these activities.

Business-type Activities - The City's utility system, solid waste management and airport operations are reported here as the City charges fees to customers to help cover its costs of certain services it provides.

Component Units – The City includes four separate legal entities in its report – The Sugar Land Development Corporation, the Sugar Land 4B Corporation, the Sugar Land Town Square Tax Increment Reinvestment Zone (TIRZ) and the Sugar Land Town Square Development Authority. Although legally separate, these “component units” are included because of the significance of their operational or financial relationships with the City.

FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's most significant funds. The fund financial statements provide more information about the City's most significant funds - not the City as a whole.

The City has two types of funds:

Governmental Funds - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's major programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement (Exhibit A-3) that explains the relationship/differences between them.

Proprietary Funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flows. The City's enterprise funds account for the operations of the City's utility system, solid waste management and regional airport.

The City uses internal service funds (the other type of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities. The Property Insurance Fund, Employee Benefits Fund, Fleet Replacement Fund and High-Technology Replacement Fund are the City's internal service funds. Their purpose is to provide for the accumulation of money for insurance, employee benefits, and vehicle and equipment replacement used in City operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, excluding component units, assets exceeded liabilities by \$221.5 million.

Statement of Net Assets:

The following table reflects the condensed Statement of Net Assets:

SUMMARY OF STATEMENT OF NET ASSETS As of September 30, 2004 and 2003 (amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 45,981	\$ 54,384	\$ 19,048	\$ 18,207	\$ 65,029	\$ 72,591
Capital assets, net	176,263	161,584	140,422	134,098	316,685	295,682
Total Assets	222,244	215,968	159,470	152,305	381,714	368,273
Long-term liabilities	109,668	115,753	18,373	19,894	128,041	135,647
Other liabilities	19,951	17,311	12,235	5,371	32,186	22,682
Total Liabilities	129,619	133,064	30,608	25,265	160,227	158,329
Net Assets:						
Invested in capital assets, net of debt	56,436	35,686	119,725	111,753	176,161	147,439
Restricted	18,277	30,316	5,265	11,976	23,542	42,292
Unrestricted	17,912	16,771	3,872	3,311	21,784	20,082
Total Net Assets	\$ 92,625	\$ 82,773	\$ 128,862	\$ 127,040	\$ 221,487	\$ 209,813

The City's combined net assets increased to \$221.5 million from \$209.8 million primarily as a result of the increase in net assets in the Governmental Activities (Exhibit A-2). The City's unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, were \$20.0 million (Exhibit A-1).

The net assets of business-type activities increased slightly (1.4%) to \$128.9 million. The City can use the unrestricted portion of \$3.9 million to finance the continuing operations of its utility system, solid waste management program and airport.

Statement of Activities

The following table provides a summary of the City's changes in net assets:

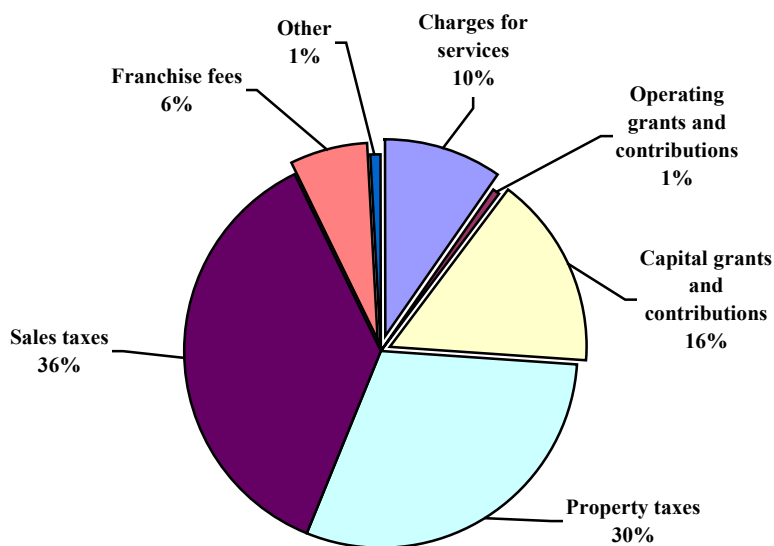
CHANGES IN NET ASSETS For the Fiscal Years Ended September 30, 2004 and 2003 (amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for services	\$ 5,952	\$ 4,533	\$ 24,501	\$ 22,315	\$ 30,453	\$ 26,848
Operating grants and contributions	347	709	31		378	709
Capital grants and contributions	9,855	6,621	1,500	161	11,355	6,782
General revenues:						
Property taxes	18,681	17,855			18,681	17,855
Other taxes	22,652	21,086			22,652	21,086
Other	4,528	4,782	174	194	4,702	4,976
Total Revenues	62,015	55,586	26,206	22,670	88,221	78,256
Expenses						
General government	4,556	3,565			4,556	3,565
Administrative services	6,117	4,938			6,117	4,938
Public works	14,565	17,360			14,565	17,360
Parks and recreation	2,837	3,349			2,837	3,349
Community development	2,249	2,158			2,249	2,158
Public safety-Police	9,777	9,764			9,777	9,764
Public safety-Fire	7,481	6,614			7,481	6,614
Water and sewer			15,080	13,084	15,080	13,084
Solid waste management			2,668	2,401	2,668	2,401
Airport			5,599	4,495	5,599	4,495
Interest on long-term debt	5,618	6,247			5,618	6,247
Total Expenses	53,200	53,995	23,347	19,980	76,547	73,975
Increase in Net Assets						
Before Transfers	8,815	1,591	2,859	2,690	11,674	4,281
Transfers	1,037	4,836	(1,037)	(4,836)		
Change in Net Assets	9,852	6,427	1,822	(2,146)	11,674	4,281
Net assets, beginning	82,773	76,346	127,040	129,186	209,813	205,532
Net Assets, Ending	\$ 92,625	\$ 82,773	\$ 128,862	\$ 127,040	\$ 221,487	\$ 209,813

- Other taxes increased by approximately \$1.6 million from the prior year, primarily due to an increase in sales tax revenue resulting from additional commercial ventures and industries operating in the City.
- Total governmental activities expenses decreased by \$795 thousand due to a decrease in capital projects.
- The increase in net assets in the business-type activities is primarily due to capital contributions from grant revenues received for airport improvements.

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.

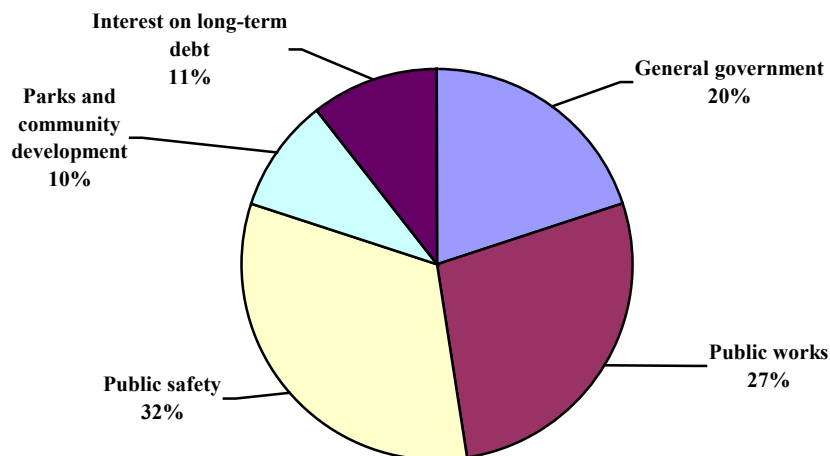
GOVERNMENTAL REVENUES



For the fiscal year ended September 30, 2004, revenues from governmental activities totaled \$62.0 million.

Property tax revenues increased by \$834,683 (4.7%) over the 2003 fiscal year, even though the tax rate was reduced to \$.3284/\$100 valuation from \$.32886/\$100 valuation. This was due to a 5.3 percent increase in the City's property valuation to \$5.7 billion.

GOVERNMENTAL FUNCTIONAL EXPENSES



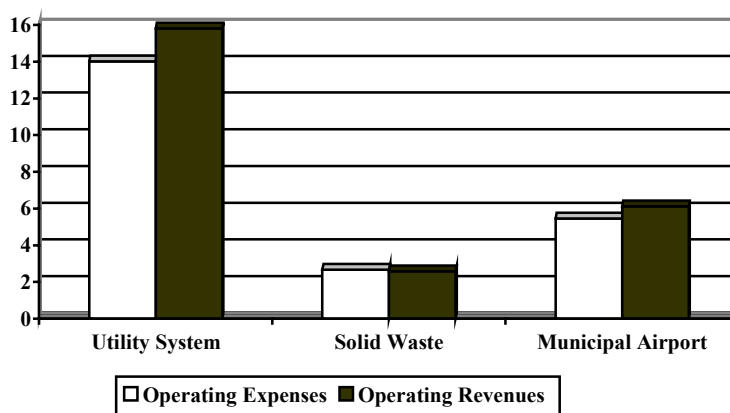
For the fiscal year ended September 30, 2004, expenses for governmental activities totaled \$53.2 million. Included in the \$53.2 million were:

- Public Safety at \$17.2 million;
- Public Works, \$14.6 million;
- General Government and Administration, \$10.7 million;
- Community Development and Parks and Recreation, \$5.1 million;
- Interest on long-term debt was \$5.6 million.

Governmental expenses per capita were \$770.

BUSINESS-TYPE ACTIVITIES

Revenue vs. Costs (Dollars in millions)



Business-type activities are shown comparing operating costs to revenues generated by related services.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

The City's governmental funds reflect a combined fund balance of \$29.4 million (Exhibit A-3). Of this, \$10.1 million is unreserved and available for day-to-day operations of the City; \$6.7 million is reserved for debt service and \$10.9 million is reserved for capital projects.

There was a decrease in the combined fund balance of \$11.2 million from the prior year. The decrease in fund balance (Exhibit A-4) includes \$11.4 million in Capital Projects Fund revenues and other financing sources under expenditures and other financing uses. This decrease was primarily a result of prior year bond proceeds being expended in the current fiscal year on various capital projects. The City's fund balance policy for the General Fund is a 3-month reserve. With a current year increase of \$810,170, the General Fund's fund balance of \$11.3 million is \$2.5 million over policy.

There was also a reduction, \$671,623, in the Debt Service fund balance to \$6.7 million, as compared to a budgeted reduction of \$703,145 (Exhibit D-1). The fund is over fund balance policy by \$2.4 million. Debt service payments totaled \$16.5 million for the fiscal year.

In the Capital Projects Funds, the City spent \$25.0 million on projects and issued \$5.4 million in General Obligation bonds to support capital expenditures relating to various improvements, including the near completion of the new City Hall, leaving an ending fund balance of \$10.9 million. The \$10.9 million will be used for identified and council approved improvements.

Proprietary Funds - The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail (Exhibits A-7, A-8, and A-9).

The Utility System has unrestricted net assets at fiscal year end of \$3.1 million. A planned decrease of \$374 thousand in total net assets from the prior year was used for pay-as-you-go capital improvements. Solid Waste Management has \$95,814 in unrestricted net assets, and the Regional Airport's unrestricted net assets amounted to \$671,174. The Airport fund had an increase in total net assets. Other factors concerning the finances of the City's Proprietary Funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

	Fiscal Year 2004		
	Original Budget	Amended Budget	Actual
<u>Revenues</u>			
Taxes	\$ 27,067,111	\$ 28,593,304	\$ 28,814,698
Other	8,170,072	8,335,653	8,351,834
Total	<u>35,237,183</u>	<u>36,928,957</u>	<u>37,166,532</u>
<u>Expenditures</u>			
Expenditures	<u>36,087,957</u>	<u>36,530,500</u>	<u>35,203,914</u>
<u>Other Financing Sources/(Uses)</u>			
Proceeds from capital lease		383,764	
Transfers in	1,953,400	1,953,400	1,953,400
Contributions - component units	1,321,188	643,096	645,424
Transfers (out)	<u>(2,918,126)</u>	<u>(3,696,815)</u>	<u>(3,751,272)</u>
Total	<u>356,462</u>	<u>(716,555)</u>	<u>(1,152,448)</u>
Change in Fund Balance	<u>\$ (494,312)</u>	<u>\$ (318,098)</u>	<u>\$ 810,170</u>

Revenue and other financing sources exceeded expenditures and other financing uses by \$810,170 in the General Fund for the 2004 fiscal year.

Actual General Fund revenues exceeded original budgeted revenues by \$1.9 million during the 2004 fiscal year. This increase is attributable to actual sales tax revenue exceeding original projections. Actual revenue collections exceeded the amended budget revenue total by \$237,575. General fund expenditures were under the original and amended budgets by \$884,043 and \$1.3 million, respectively.

During the 2004 fiscal year, City Council amended the budget for the following purposes:

- To re-appropriate monies to pay for commitments in the form of encumbrances established prior to September 30, 2003 but not paid by that date;
- To re-appropriate funds for projects committed to but not completed in fiscal year 2003;
- To re-appropriate grant revenues authorized in fiscal year 2003 or earlier, but not expended or encumbered as of September 30, 2003;
- To appropriate grants or donations accepted or adjusted in fiscal year 2004;
- To reflect department year-end projections.

CAPITAL ASSETS

At the end of fiscal year 2004, the City's governmental activities funds (including internal service funds) and business-type activities funds had invested \$176.3 million and \$140.4 million (see Note 6), respectively, in a variety of capital assets and infrastructure, as reflected in the following schedule. This represents a net increase of \$14.7 million, or 9.1 percent over the end of last fiscal year for its governmental activities capital assets and a net increase of \$6.3 million, or 4.7 percent over the end of last fiscal year for its business-type activities capital assets.

SCHEDULE OF CAPITAL ASSETS (amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Non-Depreciable Assets						
Land and intangibles	\$ 57,574	\$ 57,490	\$ 12,104	\$ 11,909	\$ 69,678	\$ 69,399
Construction in progress	27,043	12,696	11,694	4,667	38,737	17,363
Other Capital Assets						
Infrastructure	213,848	206,505	181,805	178,483	395,653	384,988
Buildings, facilities and improvements	24,322	23,931	5,049	5,023	29,371	28,954
Vehicles and equipment	13,459	12,627	2,633	2,568	16,092	15,195
Furniture and fixtures	114	101	4	4	118	105
Accumulated deprec. on other capital assets	(160,097)	(151,766)	(72,867)	(68,556)	(232,964)	(220,322)
Totals	<u>\$ 176,263</u>	<u>\$ 161,584</u>	<u>\$ 140,422</u>	<u>\$ 134,098</u>	<u>\$ 316,685</u>	<u>\$ 295,682</u>

Construction in progress at year-end represents numerous ongoing projects, the largest of which relate to street and water and wastewater improvement projects and construction of a new city hall building.

Additional information on the City's capital assets can be found in Note 6 to the financial statements.

LONG-TERM DEBT

At the end of the current fiscal year, the City had total bonds, certificates of obligation, notes, capital leases and obligations to the State outstanding of \$139.2 million. Of this amount, \$92.3 is general obligation debt (including \$11.7 million of annexed/dissolved utility district bonds), and \$20.1 million represents bonds secured solely by specified revenue sources (i.e. revenue bonds). Certificates of Obligation account for \$24.7 million.

SCHEDULE OF LONG-TERM DEBT
(amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 80,539	\$ 83,755	\$	\$	\$ 80,539	\$ 83,755
Annexed MUD's Bonds	11,745	12,480			11,745	12,480
Revenue Bonds			20,090	21,630	20,090	21,630
Certificates of Obligation	24,700	25,700			24,700	25,700
Leases and Obligation to State	2,083	2,222			2,083	2,222
Total	\$ 119,067	\$ 124,157	\$ 20,090	\$ 21,630	\$ 139,157	\$ 145,787

The City had one debt issuance during the 2004 fiscal year: \$5.435 million in general obligation bonds. The City's total debt decreased by \$6.6 million during the fiscal year, down 4.5% from the prior fiscal year. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

Current ratings on debt issues are as follows:

	Moody's Investors Service	Standard and Poors	Fitch Investors Service
General obligation bonds	Aa3	AA-	AA
Revenue bonds	A 1	A+	

All of the City's bond issues have been successful in qualifying for bond insurance resulting in ratings of "Aaa", "AAA" and "AAA" ratings from Moody's, Standard & Poors and Fitch, respectively.

Both the Sugar Land Development Corporation (SLDC) and the Sugar Land 4B (SL4B) Corporation, component units of the City, have issued debt. The bonds are rated "A1" and "A" from Moody's and Standard & Poors, respectively. Their bonds have also qualified for bond insurance. Therefore, the SLDC and SL4B bonds are rated "Aaa" and "AAA" by Moody's and Standard & Poors, respectively.

ECONOMIC FACTORS

The unemployment rate for the City of Sugar Land in the fall of 2004 was 4.1%, a decrease from the 5.1% rate of the prior year. The U. S. unemployment rate for September 2004 was 5.4% and for Texas, 5.5%. The Houston PMSA unemployment rate was 5.9%.

Residential and commercial building permits remain strong. The number of residential permits, 253, decreased by 22% and the corresponding value decreased by 28.8%. Commercial permitted value increased by 16.4%. The occupancy rate for Class A and Class B commercial buildings was 95.5% and 78.6%, respectively, as of September 30, 2004, and the occupancy rate for all commercial buildings was 95.4%.

The City's strong local economy is supported by a large retail and commercial tax base. Sales tax collections for fiscal year 2004 were conservatively budgeted to increase 3.34 percent due to the recent economic slowdown. However, the actual base collections were 8.38 percent higher than the original budget and 11.31 percent higher than collections in fiscal year 2003.

The City actively works toward attracting a diverse business base as well as retaining and working with current businesses in their expansion plans. Tramontina, a current Sugar Land business, has begun a 300,000-square foot expansion. Yokagowa Corporation and Thermo Electron Corporation have both announced plans to move to the Sugar Land Business Park.

A 2,000-acre mixed-use development has begun with infrastructure and levee improvements. The master-planned community will include residential, commercial, office and targeted research and development components.

A nearly completed new City Hall, with move-in scheduled for late November, is located in the Sugar Land Town Square, a 32-acre lifestyle development that includes restaurants, upscale condominiums and retail, office space, and the Sugar Land Marriott Hotel and Conference Center. This project is the result of a public-private partnership.

The Sugar Land City Council approved a \$116.5 million budget for the 2005 fiscal year, including Capital Projects and Component Units. This is a 16.3% increase over the adopted 2004 fiscal year budget. Although this is a significant increase, the operating budget, which funds the day-to-day operations of the City increased 8.9% while capital projects increased 48.2%. The budget incorporated a tax rate reduction of .83% to \$.32568 per \$100 of valuation, a recommended increase in user fees for Parks and Development Services, an increase in over-65 and disabled persons exemptions, and a 3% revenue increase in the Utility Fund.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Sugar Land's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to Claire Manthei, Director of Finance and Administration, City Hall, 2700 Town Center Boulevard North, Sugar Land, TX 77479, telephone (281) 275-2700, or, for general City information, visit the City's website at www.sugarlandtx.gov.

BASIC FINANCIAL STATEMENTS

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City of Sugar Land, Texas

STATEMENT OF NET ASSETS

September 30, 2004

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Cash and cash equivalents	\$ 19,346,127	\$ 2,123,552	\$ 21,469,679	\$ 1,700,169
Investments	16,783,545	1,701,481	18,485,026	4,258,875
Current portion of receivables	7,261,676	9,743,300	17,004,976	1,429,514
Due from component units	1,593,364		1,593,364	
Loans receivable from primary government				911,205
Prepaid items	112,309	13,321	125,630	5,389
Inventory	103,509	200,320	303,829	
Cash with fiscal agent	780,555		780,555	
Restricted cash and cash equivalents and investments		5,265,754	5,265,754	4,167,816
Capital assets, net of accumulated depreciation:				
Land and intangibles	57,574,108	12,104,384	69,678,492	2,260,873
Infrastructure	66,015,146	111,583,887	177,599,033	
Buildings and improvements	19,471,585	3,904,484	23,376,069	15,103,794
Machinery and equipment	6,098,267	1,133,198	7,231,465	940,158
Furnitures and fixtures	60,675	2,632	63,307	1,708,139
Construction in progress	27,043,054	11,693,649	38,736,703	
Total Assets	222,243,920	159,469,962	381,713,882	32,485,932
Liabilities				
Accounts payable	2,556,599	1,141,312	3,697,911	1,150
Accrued liabilities	2,793,962	394,107	3,188,069	
Accrued interest payable	967,995	110,282	1,078,277	107,430
Unearned revenue	1,399,799	7,813,437	9,213,236	
Customer deposits	42,445	294,464	336,909	
Due to primary government				1,593,364
Loans from component unit		911,205	911,205	
Long-term liabilities due within one year	12,190,768	1,570,000	13,760,768	1,884,379
Long-term liabilities due in more than one year	109,667,810	18,372,573	128,040,383	15,300,110
Total Liabilities	129,619,378	30,607,380	160,226,758	18,886,433
Net Assets				
Invested in capital assets, net of related debt	56,435,800	119,725,279	176,161,079	2,937,964
Restricted for:				
Capital improvements	10,940,665	2,398,342	13,339,007	
Debt service	5,685,944	1,189,006	6,874,950	
Economic development				10,661,535
Other	1,649,882	1,678,406	3,328,288	
Unrestricted assets	17,912,251	3,871,549	21,783,800	
Total Net Assets	\$ 92,624,542	\$ 128,862,582	\$ 221,487,124	\$ 13,599,499

See Notes to Financial Statements.

City of Sugar Land, Texas

STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions
Primary Government				
Governmental Activities				
General government	\$ 4,556,424	\$ 85,787	\$	\$
Administrative services	6,117,246	1,686,975		
Public works	14,564,970	52,357		7,044,040
Parks and recreation	2,837,255	176,065	10,725	2,594,912
Community development	2,248,632	1,086,479	222,689	
Public safety-Police	9,777,071	1,386,470	110,485	
Public safety-Fire	7,461,306	1,477,288	3,354	216,203
Interest on long-term debt	5,637,729			
Total Governmental Activities	<u>53,200,633</u>	<u>5,951,421</u>	<u>347,253</u>	<u>9,855,155</u>
Business-type Activities				
Water and sewer	15,079,772	15,812,450		
Solid waste management	2,667,768	2,575,996	31,487	
Airport	5,599,018	6,112,367		1,500,194
Total Business-type Activities	<u>23,346,558</u>	<u>24,500,813</u>	<u>31,487</u>	<u>1,500,194</u>
Total Primary Government	<u>\$ 76,547,191</u>	<u>\$ 30,452,234</u>	<u>\$ 378,740</u>	<u>\$ 11,355,349</u>
Component Units				
Sugar Land Development Corp.	\$ 2,702,188	\$	\$	\$
Sugar Land 4B Corporation	4,016,645		139,000	
Sugar Land Town Square TIRZ	155,121			
Sugar Land Town Square Development Authority	548,910			
Total Component Units	<u>\$ 7,422,864</u>	<u>\$</u>	<u>\$ 139,000</u>	<u>\$</u>
General Revenues:				
Taxes				
Property taxes				
Sales taxes				
Sales taxes - hotel and mixed drink				
Franchise fees				
Investment earnings				
Miscellaneous				
Gain on disposal of assets				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets, Beginning (Restated)				
Net Assets, Ending				

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-Type Activities	Total	
\$ (4,470,637)	\$	(4,470,637)	\$
(4,430,271)		(4,430,271)	
(7,468,573)		(7,468,573)	
(55,553)		(55,553)	
(939,464)		(939,464)	
(8,280,116)		(8,280,116)	
(5,764,461)		(5,764,461)	
(5,637,729)		(5,637,729)	
(37,046,804)		(37,046,804)	
	732,678	732,678	
	(60,285)	(60,285)	
	2,013,543	2,013,543	
	2,685,936	2,685,936	
\$ (37,046,804)	\$ 2,685,936	\$ (34,360,868)	
			(2,702,188)
			(3,877,645)
			(155,121)
			(548,910)
\$	\$	\$	\$ (7,283,864)
\$ 18,681,254	\$	\$ 18,681,254	\$ 197,613
21,807,809		21,807,809	7,269,270
843,929		843,929	
3,927,334		3,927,334	
526,503	148,344	674,847	166,667
	1,362	1,362	104
74,042	23,845	97,887	
1,037,359	(1,037,359)		
46,898,230	(863,808)	46,034,422	7,633,654
9,851,426	1,822,128	11,673,554	349,790
82,773,116	127,040,454	209,813,570	13,249,709
\$ 92,624,542	\$ 128,862,582	\$ 221,487,124	\$ 13,599,499

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City of Sugar Land, Texas

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2004

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash and cash equivalents	\$ 5,985,818	\$ 3,687,571	\$ 8,788,158	\$ 517,826	\$ 18,979,373
Cash with fiscal agent	384,801	395,754			780,555
Investments	8,750,494	2,560,341	3,449,670		14,760,505
Receivables, net	1,211,530	226,625	42,539	274,002	1,754,696
Due from component units			1,593,364		1,593,364
Prepaid items	40,220		64	27,516	67,800
Inventory	103,509				103,509
Total Assets	\$ 16,476,372	\$ 6,870,291	\$ 13,873,795	\$ 819,344	\$ 38,039,802
<u>Liabilities</u>					
Accounts payable	\$ 1,219,512	\$ 1,961	\$ 1,818,814	\$ 41,406	\$ 3,081,693
Accrued liabilities	2,399,365			97,577	2,496,942
Customer deposits	42,445				42,445
Retainage payable			931,068		931,068
Deferred revenue	1,507,872	214,391	183,248	202,243	2,107,754
Total Liabilities	\$ 5,169,194	\$ 216,352	\$ 2,933,130	\$ 341,226	\$ 8,659,902
<u>Fund Balances</u>					
Reserved for:					
Encumbrances	1,028,035				1,028,035
Prepaid items	40,220				40,220
Inventory	103,509				103,509
Debt service		6,653,939			6,653,939
Capital projects			10,940,665		10,940,665
Other - special revenue funds				478,118	478,118
Unreserved	10,135,414				10,135,414
Total Fund Balances	11,307,178	6,653,939	10,940,665	478,118	29,379,900
Total Liab. and Fund Balances	\$ 16,476,372	\$ 6,870,291	\$ 13,873,795	\$ 819,344	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore not reported in the governmental funds.	174,541,311
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the governmental funds.	5,699,768
Internal service funds are used by management to charge the costs of certain activities such as insurance and equipment replacement; and therefore, the assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	4,276,277
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.	(121,272,714)
Net Assets of Governmental Activities	\$ 92,624,542

See Notes to Financial Statements.

City of Sugar Land, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS Year Ended September 30, 2004

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 6,690,144	\$ 12,038,653	\$ 67	\$	\$ 18,728,864
Sales and hotel taxes	22,124,554			598,574	22,723,128
Franchise fees	3,966,827				3,966,827
Licenses and permits	1,086,479				1,086,479
Fines and forfeitures	1,292,717			84,905	1,377,622
Charges for services	1,482,011			864,483	2,346,494
Other	29,021		235,414		264,435
Investment income	174,693	95,463	223,928	4,560	498,644
Intergovernmental revenue/grants	320,086		5,187,340	243,370	5,750,796
Total Revenues	37,166,532	12,134,116	5,646,749	1,795,892	56,743,289
Expenditures					
Current:					
General government	4,392,824			75,000	4,467,824
Administrative services	4,764,198	593,149		67,599	5,424,946
Public works	5,796,088				5,796,088
Parks and recreation	1,968,563				1,968,563
Community development	2,021,683			222,689	2,244,372
Public safety-Police	9,397,134			47,190	9,444,324
Public safety-Fire	6,324,923			735,288	7,060,211
Capital outlay			24,999,470		24,999,470
Debt Service:					
Principal	473,600	10,386,457		33,873	10,893,930
Interest and fiscal charges	64,901	6,064,148		19,639	6,148,688
Total Expenditures	35,203,914	17,043,754	24,999,470	1,201,278	78,448,416
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,962,618	(4,909,638)	(19,352,721)	594,614	(21,705,127)
Other Financing Sources (Uses)					
Bonds issued			5,435,000		5,435,000
Transfers in	1,953,400	4,153,862	2,347,233	1,742	8,456,237
Contributions - component units	645,424	194,476	4,197,966		5,037,866
Transfers out	(3,751,272)	(110,323)	(4,028,197)	(540,000)	(8,429,792)
Total Other Financing Sources (Uses)	(1,152,448)	4,238,015	7,952,002	(538,258)	10,499,311
Net Change in Fund Balances	810,170	(671,623)	(11,400,719)	56,356	(11,205,816)
Fund balances - Beginning	10,497,008	7,325,562	22,341,384	421,762	40,585,716
Fund Balances - Ending	\$ 11,307,178	\$ 6,653,939	\$ 10,940,665	\$ 478,118	\$ 29,379,900

See Notes to Financial Statements.

City of Sugar Land, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended September 30, 2004

Net changes in fund balances - governmental funds (Exhibit A-4)	\$ (11,205,816)
Adjustments for the Statement of Activities:	
Repayment of bond and note principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	10,875,398
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$24,589,119) exceeded depreciation (\$10,061,578) in the current period.	14,527,541
Revenues that do not provide current financial resources are not reported as revenues in the governmental funds. This adjustment reflects the net change in sales, franchise, fines and property taxes receivable on the accrual basis of accounting.	(128,998)
Capital contributions from developers and component units are not reported as revenues in the governmental funds.	100,054
Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets.	(5,401,127)
Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(16,071)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This adjustment reflects the net change in interest payable (\$29,669) and accreted interest payable (\$497,361) on the accrual basis of accounting.	527,030
Internal service funds are used by management to charge the costs of certain activities, such as insurance and equipment replacement, to individual funds. The net revenues (expenses) is reported with governmental activities.	573,415
Change in Net Assets of Governmental Activities	\$ 9,851,426

See Notes to Financial Statements.

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City of Sugar Land, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	Original Budget	Budget as Amended	Actual	Variance from Amended Over (Under)	2003 Actual
<u>Revenues</u>					
Property taxes	\$ 6,653,017	\$ 6,707,694	\$ 6,690,144	\$ (17,550)	\$ 5,715,487
Sales taxes	20,414,094	21,885,610	22,124,554	238,944	19,876,630
Franchise fees	4,020,000	3,972,442	3,966,827	(5,615)	3,920,930
Licenses and permits	732,700	1,053,430	1,086,479	33,049	1,110,548
Fines and forfeitures	1,563,290	1,387,747	1,292,717	(95,030)	1,539,826
Charges for services	1,486,319	1,496,893	1,482,011	(14,882)	946,510
Other	27,100	73,521	29,021	(44,500)	743,813
Investment income	280,000	170,176	174,693	4,517	219,044
State and federal grants	60,663	181,444	320,086	138,642	216,650
Total Revenues	<u>35,237,183</u>	<u>36,928,957</u>	<u>37,166,532</u>	<u>237,575</u>	<u>34,289,438</u>
<u>Expenditures</u>					
Current:					
General government	3,860,044	4,433,570	4,392,824	40,746	3,664,393
Administrative services	4,537,438	4,892,065	4,764,198	127,867	3,690,572
Public works	5,937,535	6,056,159	5,796,088	260,071	5,490,831
Parks and recreation	2,075,490	2,084,465	1,968,563	115,902	1,958,525
Community development	2,063,812	2,109,964	2,021,683	88,281	1,866,969
Public safety-Police	10,106,795	9,623,161	9,397,134	226,027	9,461,935
Public safety-Fire	6,141,372	6,792,614	6,324,923	467,691	6,441,242
Debt Service	<u>1,365,471</u>	<u>538,502</u>	<u>538,501</u>	<u>1</u>	<u>555,161</u>
Total Expenditures	<u>36,087,957</u>	<u>36,530,500</u>	<u>35,203,914</u>	<u>1,326,586</u>	<u>33,129,628</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(850,774)	398,457	1,962,618	1,564,161	1,159,810
Other Financing Sources (Uses)					
Capital lease		383,764		(383,764)	371,555
Transfers in	1,953,400	1,953,400	1,953,400		1,957,400
Contributions - component units	1,321,188	643,096	645,424	2,328	
Transfers (out)	(2,918,126)	(3,696,815)	(3,751,272)	(54,457)	(3,975,912)
Total Other Financing Sources (Uses)	<u>356,462</u>	<u>(716,555)</u>	<u>(1,152,448)</u>	<u>(435,893)</u>	<u>(1,646,957)</u>
Net Change in Fund Balances	(494,312)	(318,098)	810,170	1,128,268	(487,147)
Fund Balances, beginning of year	<u>10,497,008</u>	<u>10,497,008</u>	<u>10,497,008</u>		<u>10,984,155</u>
Fund Balances, End of Year	<u>\$ 10,002,696</u>	<u>\$ 10,178,910</u>	<u>\$ 11,307,178</u>	<u>\$ 1,128,268</u>	<u>\$ 10,497,008</u>

See Notes to Financial Statements.

City of Sugar Land, Texas

STATEMENT OF NET ASSETS PROPRIETARY FUNDS

September 30, 2004

	Business-Type Activities- Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Utility System	Solid Waste Management	Regional Airport		
Assets					
Current Assets					
Cash and cash equivalents	\$ 1,409,237	\$	\$ 714,315	\$ 2,123,552	\$ 366,754
Investments	1,601,641		99,840	1,701,481	2,023,040
Receivables, net	1,830,059	319,882	7,593,359	9,743,300	140,012
Prepaid expenses	4,792	8,529		13,321	44,573
Inventory	87,611		112,709	200,320	
Total Current Assets	4,933,340	328,411	8,520,223	13,781,974	2,574,379
Non-Current Assets					
Restricted cash and temporary investments	4,520,199		745,555	5,265,754	
Capital assets:					
Land	2,176,826		9,927,558	12,104,384	
Buildings and improvements	463,760		4,585,395	5,049,155	
Infrastructure	174,058,480		7,746,542	181,805,022	
Machinery and equipment	695,025		1,942,027	2,637,052	3,462,634
Construction in progress	8,282,288		3,411,361	11,693,649	
Less: accumulated depreciation	(65,213,881)		(7,653,147)	(72,867,028)	(1,741,110)
Total Capital Assets, Net of Accum. Depreciation	120,462,498		19,959,736	140,422,234	1,721,524
Total Non-Current Assets	124,982,697		20,705,291	145,687,988	1,721,524
Total Assets	129,916,037	328,411	29,225,514	159,469,962	4,295,903
Liabilities and Net Assets					
Liabilities					
Current Liabilities					
Accounts payable	810,204	184,547	146,561	1,141,312	13,183
Accrued liabilities	100,732	27,401	57,927	186,060	
Compensated absences	111,577	2,354	42,892	156,823	
Customer deposits	294,464			294,464	
Retainage payable	208,047			208,047	
Unearned revenue	203,059	18,295	7,592,083	7,813,437	6,443
Loans due to component unit			911,205	911,205	
Bonds, notes and loans payable	1,255,000		300,000	1,555,000	
Accrued interest payable	100,696		9,586	110,282	
Total Current Liabilities	3,083,779	232,597	9,060,254	12,376,630	19,626
Non-Current Liabilities					
Bonds, notes and loans payable	16,605,750		1,625,000	18,230,750	
Total Liabilities	19,689,529	232,597	10,685,254	30,607,380	19,626
Net Assets					
Invested in capital assets, net of related debt	102,601,748		17,123,531	119,725,279	1,721,524
Restricted for restricted assets	4,520,199		745,555	5,265,754	
Unrestricted	3,104,561	95,814	671,174	3,871,549	2,554,753
Total Net Assets	\$ 110,226,508	\$ 95,814	\$ 18,540,260	\$ 128,862,582	\$ 4,276,277

See Notes to Financial Statements.

City of Sugar Land, Texas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

Year Ended September 30, 2004

	Business-Type Activities- Enterprise Funds				Governmental Activities- Internal Service Funds
	Utility System	Solid Waste Management	Regional Airport	Totals	
Operating Revenues					
Charges for services	\$ 15,812,450	\$ 2,575,996	\$ 6,112,367	\$ 24,500,813	\$ 3,298,062
Insurance settlements					249,479
Miscellaneous		1,362		1,362	
Total Operating Revenues	<u>15,812,450</u>	<u>2,577,358</u>	<u>6,112,367</u>	<u>24,502,175</u>	<u>3,547,541</u>
Operating Expenses					
Personnel services	1,787,105	71,367	884,076	2,742,548	
Materials and supplies	286,562	11,843	3,215,036	3,513,441	
Contractual services	5,713,114	2,556,517	228,569	8,498,200	
Other charges	2,181,127	28,041	402,607	2,611,775	
Cost of goods and services					3,630,040
Depreciation	4,046,834		724,407	4,771,241	405,438
Total Operating Expenses	<u>14,014,742</u>	<u>2,667,768</u>	<u>5,454,695</u>	<u>22,137,205</u>	<u>4,035,478</u>
Operating Income (Loss)	<u>1,797,708</u>	<u>(90,410)</u>	<u>657,672</u>	<u>2,364,970</u>	<u>(487,937)</u>
Non-Operating Revenues (Expenses)					
Investment income	128,635		19,709	148,344	27,859
Gain (loss) on disposal of assets	(229,869)		23,845	(206,024)	22,579
Grant revenue		31,487	1,446,569	1,478,056	
Interest and fiscal charges	(835,161)		(144,323)	(979,484)	
Total Non-Operating Revenues (Expenses)	<u>(936,395)</u>	<u>31,487</u>	<u>1,345,800</u>	<u>440,892</u>	<u>50,438</u>
Income (Loss) Before Transfers and Contributions	<u>861,313</u>	<u>(58,923)</u>	<u>2,003,472</u>		<u>(437,499)</u>
Contributions - component units			53,625	53,625	
Transfers in	3,886,058	46,550	517,041	4,449,649	1,010,914
Transfers (out)	(5,120,945)	(3,444)	(362,619)	(5,487,008)	
Change in Net Assets	<u>(373,574)</u>	<u>(15,817)</u>	<u>2,211,519</u>	<u>1,822,128</u>	<u>573,415</u>
Net assets, beginning of year	<u>110,600,082</u>	<u>111,631</u>	<u>16,328,741</u>	<u>127,040,454</u>	<u>3,702,862</u>
Net Assets, End of Year	<u>\$ 110,226,508</u>	<u>\$ 95,814</u>	<u>\$ 18,540,260</u>	<u>\$ 128,862,582</u>	<u>\$ 4,276,277</u>

See Notes to Financial Statements.

City of Sugar Land, Texas

STATEMENT OF CASH FLOWS -

PROPRIETARY FUNDS

Year Ended September 30, 2004

	Business-Type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Utility System	Solid Waste Management	Regional Airport	Totals
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 15,652,393	\$ 2,543,824	\$ 6,089,865	\$ 24,286,082
Payments to suppliers	(8,858,718)	(2,547,312)	(3,944,574)	(15,350,604)
Payments to employees	(1,737,156)	(71,105)	(889,862)	(2,698,123)
Net Cash Provided (Used) by Operating Activities	<u>5,056,519</u>	<u>(74,593)</u>	<u>1,255,429</u>	<u>6,237,355</u>
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers from other funds	3,886,058	46,550	517,041	4,449,649
Contributions from component units			71,498	71,498
Transfers (out) to other funds	(5,120,945)	(3,444)	(362,619)	(5,487,008)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,234,887)</u>	<u>43,106</u>	<u>225,920</u>	<u>1,010,914</u>
<u>Cash Flows from Capital and Related Financing Activities</u>				
Proceeds from sale of equipment	9,820		1,045	10,865
Proceeds from grant revenues		31,487	1,446,570	1,478,057
Acquisition and construction of capital assets	(8,040,619)		(3,202,482)	(11,243,101)
Component unit loan payments			(144,197)	(144,197)
Revenue bond principal payments	(1,250,000)		(290,000)	(1,540,000)
Interest and fiscal payments on revenue bonds	(841,539)		(152,137)	(993,676)
Net Cash Flows from Capital and Related Financing Activities	<u>(10,122,338)</u>	<u>31,487</u>	<u>(2,341,201)</u>	<u>(12,432,052)</u>
<u>Cash Flows from Investing Activities</u>				
Purchase of investments	(3,828,411)		(201,147)	(4,029,558)
Sales of investments	1,750,000		400,000	2,150,000
Interest on investments	120,320		19,641	139,961
Net Cash Flows from Investing Activities	<u>(1,958,091)</u>		<u>218,494</u>	<u>(1,739,597)</u>
Net Increase (Decrease) in Cash and Equivalents	<u>(8,258,797)</u>		<u>(641,358)</u>	<u>(8,900,155)</u>
Cash and cash equivalents, beginning of year	<u>11,506,775</u>		<u>2,101,228</u>	<u>13,608,003</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,247,978</u>	<u>\$</u>	<u>\$ 1,459,870</u>	<u>\$ 4,707,848</u>
Cash and Cash Equivalents, End of Year:				
Unrestricted cash and cash equivalents per balance sheet	\$ 1,409,237	\$	\$ 714,315	\$ 2,123,552
Restricted cash and cash equivalents	1,838,741		745,555	2,584,296
	<u>\$ 3,247,978</u>	<u>\$</u>	<u>\$ 1,459,870</u>	<u>\$ 4,707,848</u>

See Notes to Financial Statements.

City of Sugar Land, Texas

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS Year Ended September 30, 2004

	Business-Type Activities- Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Utility System	Solid Waste Management	Regional Airport		
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ 1,797,708	\$ (90,410)	\$ 657,672	\$ 2,364,970	\$ (487,937)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Depreciation	4,046,834		724,407	4,771,241	405,438
Changes in Operating Assets and Liabilities:					
(Increase) Decrease in:					
Accounts receivable	(256,297)	(20,400)	(46,623)	(323,320)	(120,285)
Other accounts receivable	1,517	(31,430)	(7,476,707)	(7,506,620)	
Prepaid expenses	2,828	(8,529)		(5,701)	(39,573)
Inventory	(11,062)		(56,341)	(67,403)	
Increase (Decrease) in:					
Accounts payable	(742,658)	178,575	(51,131)	(615,214)	(1,477)
Accrued liabilities	31,973	(120,630)	9,110	(79,547)	
Compensated absences	17,976	(64)	(5,786)	12,126	
Retainage payable	69,824			69,824	
Deferred revenue	94,723	18,295	7,500,828	7,613,846	4,216
Customer deposits	3,153			3,153	
Net Cash Flows from Operating Activities	<u>\$ 5,056,519</u>	<u>\$ (74,593)</u>	<u>\$ 1,255,429</u>	<u>\$ 6,237,355</u>	<u>\$ (239,618)</u>

Noncash Investing, Capital and Financing Activities

Investments increased \$5,756 in fair value during the year.

Capital assets of \$1,416,570 were contributed during the year to the Airport.

See Notes to Financial Statements.

City of Sugar Land, Texas
STATEMENT OF NET ASSETS
COMPONENT UNITS
September 30, 2004

	Sugar Land Development Corporation	Sugar Land 4B Corporation	Sugar Land Town Square TIRZ	Sugar Land Town Square Development Authority	Totals
<u>Assets</u>					
Cash and cash equivalents	\$ 1,476,030	\$ 140,123	\$ 74,330	\$ 9,686	\$ 1,700,169
Investments	2,204,721	2,054,154			4,258,875
Sales tax receivable	628,215	628,215			1,256,430
Loans to primary government	911,205				911,205
Accrued interest	14,109	19,975			34,084
Accounts receivable		139,000			139,000
Prepaid expenditures	3,245	2,144			5,389
Restricted cash and investments	1,360,519	2,807,297			4,167,816
Capital assets, net of accumulated depreciation:					
Land				2,260,873	2,260,873
Buildings and improvements				15,103,794	15,103,794
Machinery and equipment				940,158	940,158
Furnitures and fixtures				1,708,139	1,708,139
Total Assets	\$ 6,598,044	\$ 5,790,908	\$ 74,330	\$ 20,022,650	\$ 32,485,932
<u>Liabilities</u>					
Accounts payable	\$ 1,150	\$	\$	\$	\$ 1,150
Accrued interest payable	17,985	89,445			107,430
Due to primary government	415,937	1,177,427			1,593,364
Obligations to State	68,510	40,979			109,489
Revenue bonds payable	2,950,000	14,125,000			17,075,000
Total Liabilities	3,453,582	15,432,851			18,886,433
<u>Net Assets (Deficit)</u>					
Restricted for:					
Loans to primary governnt.	911,205				911,205
Prepaid expenditures	3,245	2,144			5,389
Debt service	1,360,519	2,807,297			4,167,816
Economic development	3,819,493	1,673,616	74,330	9,686	5,577,125
Invested in capital assets, net of related debt	(2,950,000)	(14,125,000)		20,012,964	2,937,964
Total Net Assets (Deficit)	\$ 3,144,462	\$ (9,641,943)	\$ 74,330	\$ 20,022,650	\$ 13,599,499

See Notes to Financial Statements.

City of Sugar Land, Texas

STATEMENT OF ACTIVITIES

COMPONENT UNITS

Year Ended September 30, 2004

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets				Totals
		Operating Grants and Contributions	Sugar Land Development Corporation	Sugar Land 4B Corporation	Sugar Land Town Square TIRZ	Sugar Land Development Authority	
Sugar Land Development Corporation							
Economic development	2,546,062		(2,546,062)				(2,546,062)
Interest and fiscal charges	156,126		(156,126)				(156,126)
Total Sugar Land Development Corp.	2,702,188		(2,702,188)				(2,702,188)
Sugar Land 4B Corporation							
Economic development	3,295,507	139,000		(3,156,507)			(3,156,507)
Interest and fiscal charges	721,138			(721,138)			(721,138)
Total Sugar Land 4B Corp.	4,016,645	139,000		(3,877,645)			(3,877,645)
Sugar Land Town Square TIRZ							
Economic development	155,121				(155,121)		(155,121)
Total Sugar Land Town Square TIRZ	155,121				(155,121)		(155,121)
Sugar Land Town Square Development Authority							
Economic development	548,910					(548,910)	(548,910)
Total Sugar Land Town Square Development Authority	548,910					(548,910)	(548,910)
Total Component Units	\$ 7,422,864	\$ 139,000	\$ (2,702,188)	\$ (3,877,645)	\$ (155,121)	\$ (548,910)	\$ (7,283,864)
General Revenues:							
Taxes							
Sales taxes			\$ 3,634,635	\$ 3,634,635	\$	\$	\$ 7,269,270
Property taxes					197,613		197,613
Investment earnings			91,738	63,197	108	11,624	166,667
Miscellaneous						104	104
Total General Revenues			3,726,373	3,697,832	197,721	11,728	7,633,654
Change in Net Assets			1,024,185	(179,813)	42,600	(537,182)	349,790
Net Assets (Deficit),							
Beginning (Restated)			2,120,277	(9,462,130)	31,730	20,559,832	13,249,709
Net Assets (Deficit), Ending			\$ 3,144,462	\$ (9,641,943)	\$ 74,330	\$ 20,022,650	\$ 13,599,499

See Notes to Financial Statements.

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City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Narrative Profile

The City of Sugar Land, Texas, (the "City") was incorporated in 1959 and adopted a "Home Rule Charter" in November 1980. The Charter, as amended, provides for a Council-Manager form of government. The Council is composed of a Mayor and six Council Members, two of which are elected at large and four of which are elected by District, each serving two-year terms. The Mayor and Council Members can serve no more than four consecutive regular two-year terms.

The Mayor presides at Council meetings and is entitled to vote on all matters considered by Council. All powers of the City are vested in the Council. Such powers include: appointment of the City Manager, boards, and commissions; adoption of the budget; authorization of bond issues; and adoption of ordinances and resolutions as deemed necessary, desirable, and beneficial to the City.

A. Financial Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by accounting principles generally accepted in the United States of America, these financial statements have been prepared based on considerations regarding the potential for inclusion of component units, which are other entities or organizations that are financially accountable to the City. Blended component units, although legally separate entities, are, in substance, part of the government's operations, and as a result, data from these units are combined with data of the primary government. The City had no such blended component units. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. Based on these considerations, the City's financial statements include the following discretely presented component units: the Sugar Land Development Corporation, the Sugar Land 4B Corporation, the Sugar Land Town Square Tax Increment Reinvestment Zone and the Sugar Land Town Square Development Authority. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are: that it has a separately elected Governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include: considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Discretely Presented Component Units

Sugar Land Development Corporation

The Sugar Land Development Corporation (the "Corporation") has been included in the reporting entity as a discretely presented component unit. In 1993, the Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net assets of the Corporation shall be conveyed to the City. The operations of the Corporation are presented as a governmental fund type.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Sugar Land 4B Corporation

In 1995, the City of Sugar Land formed the Sugar Land 4B Corporation, (the “4B Corporation”), which was created by voters approving an additional sales tax. State law allows the City to collect sales tax to assist in the promotion and development activities of the City. The 4B Corporation has been included as a discretely presented component unit in the City's financial statements. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net assets of the 4B Corporation shall be conveyed to the City. The 4B Corporation is presented as a governmental fund type.

Sugar Land Town Square Tax Increment Reinvestment Zone

In 2000, the City of Sugar Land formed the Sugar Land Town Square Tax Reinvestment Zone, (the “TIRZ”), which was created under the authority of Tax Increment Financing Act, as codified as Chapter 311 of the Texas Tax Code. The TIRZ is a financing and management tool for the City in providing public facilities and infrastructure for a 32-acre multi-use development. The TIRZ has been presented as a discretely presented component unit in the City's financial statements. The Board of Directors consists of nine members. The County appoints one position, the State Senator appoints one position and the State Representative of the area included within the zone appoints one position. The remaining six members are appointed by City Council. City Council has the authority to approve or disapprove TIRZ projects. The TIRZ is presented as a governmental fund type.

Sugar Land Town Square Development Authority

In 2001, the Sugar Land Town Square Development Authority, (the “Authority”), was created by the City under Chapter 394, Local Government Code, for the purpose of aiding, assisting, and acting on behalf of the City to promote the common good and welfare of the City, including the area included in the Town Square TIRZ. The Authority has been included in the reporting entity as a discretely presented component unit. The Board of Directors is appointed by and serves at the discretion of the City Council. In the event of dissolution, net assets of the Authority shall be conveyed to the City. The operations of the Authority are presented as a governmental fund type.

Separately issued audited financial statements are not issued for the discretely presented component units. Unaudited financial statements may be obtained from the City's finance office.

B. Financial Statement Presentation

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement, known as the “Reporting Model” statement, affects the way the City prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of “management's discussion and analysis” (MD&A). This analysis is similar to the analysis that private sector companies provide in their annual reports.

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities, but also capital assets and long-term liabilities (such as buildings and infrastructure, including streets, and general obligation debt). Accrual

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

accounting reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter, as is the case with the modified accrual basis of accounting.

Statement of Net Assets - The Statement of Net Assets is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments report all capital assets, including infrastructure, in the government-wide Statement of Net Assets and report related depreciation expense, the cost of “using up” capital assets, in the Statement of Activities. The net assets of a government are broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government’s functions. The expense of individual functions is compared to the revenues generated directly by the function (such as user charges or intergovernmental grants).

Budgetary comparison schedules – Demonstrating compliance with the adopted budget is an important component of a government’s accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets throughout the year for a variety of reasons. Under the GASB Statement No. 34 reporting model, governments continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government’s original general operating budget to the current comparison of the final budget and actual results.

C. Government-wide and Fund Accounting

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this general rule are charges between the City’s business-type and governmental funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. While the previous reporting model emphasized fund types (the total of all funds of a particular type), in the new reporting model the focus is on either the City as a whole or on major individual funds (within the fund financial statements). Both the government-wide and fund financial statements (within the basic financial statements) categorize primary activities as either governmental or business-type. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables, as well as long-term debt and obligations. The City generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available. The City may defer the use of restricted assets based on a review of the specific transaction.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, general government, etc.), which are otherwise being supported by general government revenues (property and sales taxes, franchise fees, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants and contributions. The program revenues must be directly associated with the function (public safety, public works, general government, etc.) or a business-type activity. Amounts reported as program revenues include: 1) charges to customers or applicants for goods and services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. The City does not allocate indirect expenses. The operating grants include operating-specific grants, while the capital grants column reflects capital-specific grants.

The governmental funds major fund statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements’ governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund-based financial statements with the governmental column of the government-wide presentation.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

The focus of the revised reporting model is on the City as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds and the component units. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

In the fund financial statements, the accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The General Fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, administrative services, public works, parks and recreation, community development, and public safety.

Special Revenue Funds

The Special Revenue Funds are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds include the Tourism Fund, Court Security Fund, Community Development Block Grant (CDBG) Fund, Court Technology Fund, Greatwood Fire Station No. 6 Fund, Local Law Enforcement Block Grant Fund, State Seizures Fund, and Federal Seizures Fund, where the funds are for specific uses. The Special Revenue Funds are considered non-major funds for reporting purposes.

Debt Service Fund

The Debt Service Fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The Debt Service Fund is considered a major fund for reporting purposes.

Capital Projects Fund

The Capital Projects Fund is used to account for the expenditures of resources accumulated from sales tax revenues and the sale of bonds and related interest earnings for capital improvement projects. The Capital Projects Fund is considered a major fund for reporting purposes.

Proprietary Fund Types (Unbudgeted)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. All assets, liabilities, equities, revenues, expenses and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position and cash flows. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel and depreciation. In accordance with GASB Statement No. 20, the City has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for enterprise funds.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Enterprise Funds

The Enterprise Funds are used to account for the operations that provide water and wastewater utility services to the public, solid waste disposal operations, and general aviation services. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges.

Internal Service Funds

The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. Goods and services provided by the Internal Service Funds include property and liability insurance coverage, employee health benefits, fleet replacement, and high technology replacement. The internal service funds are included in governmental activities for government-wide reporting purposes.

D. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All Governmental Fund Types and Component Units are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The government-wide statements of net assets and statements of activities and all proprietary funds and private purpose trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the statements of net assets. Proprietary fund equity consists of retained earnings. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The City utilizes the modified accrual basis of accounting in the Governmental Fund Types and Component Units. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means that the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include charges for services and interest on temporary investments. Property tax levies collected after the fiscal year-end, which would be available to finance current operations, are immaterial and remain deferred. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due.

The accrual basis of accounting is used for the Proprietary Fund Types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable. Furniture and equipment capitalized in the Proprietary Fund Types are valued at cost.

The statements of net assets, statements of activities, and financial statements of proprietary fund types are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized in the accounting period in which they are earned, and expenses in the accounting period in which they are incurred.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are appropriately provided for in the subsequent year's budget.

F. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, balances in a privately managed public funds investment pool ("TexPool"), and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the Proprietary Fund Types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. For cash management purposes, the City has a sweep arrangement with the bank to transfer cash balances to a Money Market Mutual Fund account each day. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments. The City pools excess cash of the various individual funds to purchase these investments. These pooled investments are reported in the combined balance sheet as Investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund, monthly, based on their respective share of investments in the pooled investments.

G. Investments

Investments, consisting primarily of U.S. Government Securities, are stated at fair value based on quoted market prices. The U.S. Government Securities are generally held to maturity.

H. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Utility System Fund are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

I. Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed. These receivables and payables are classified as "due from other funds" or "due to other funds" or "due from component unit/primary government" or "due to component unit/primary government" if the transactions are between the primary government and its component unit. Interfund receivables and payables which are not expected to be paid within 12 months are classified as loans from/loans to other funds, component units, or primary government.

J. Interest Receivable

Interest on investments and certain receivables is recorded as revenue in the year the interest is earned and available to pay liabilities of the current period.

K. Inventories and Prepaid Items

Inventories of the General and Enterprise Funds are valued at cost (first-in, first-out method). Inventories for all funds consist of expendable supplies held for consumption, and the cost thereof is recorded as an expense/expenditure at the time the inventory items are issued (consumption method).

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

L. Restricted Assets

The Enterprise Funds have restricted certain cash and investments for customer deposits, reserve and emergency expenditures, capital improvements, cash restricted for others, and revenue bond debt service. Because of certain bond covenants, the Enterprise Fund is required to maintain prescribed amounts of resources that can be used only to service outstanding debt. Some of the proceeds from debt or from funds received from acquisition of Municipal Utility Districts are restricted for use on capital projects.

Additionally, the Sugar Land Development Corporation and the Sugar Land 4B Corporation have restricted certain cash and investments for revenue bond debt service, and because of certain bond covenants, they are required to maintain prescribed amounts of resources that can be used only to service outstanding debt.

M. Capital Assets

Capital assets used in governmental fund types of the government are recorded as expenditures of the General, Special Revenue and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Depreciation is recorded on capital assets on a government-wide basis. Property, Plant, and Equipment in the Proprietary Funds of the government are recorded at cost or at the estimated fair value at the date of donation if donated to the City. Property, Plant, and Equipment acquired from Municipal Utility Districts (MUDs) are recorded at the book value of the MUD at the date of annexation by the City. Major outlays for capital assets and improvements are capitalized in Proprietary Funds as projects are constructed and subsequently depreciated over their estimated useful lives on a straight-line basis at both the fund and government-wide levels. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and resulting gain or loss is included in the results of operations.

Depreciation has been provided for plant and equipment using the straight-line method over the following estimated useful life for the type of assets as follows:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 to 7 years
Office furniture and equipment	3 to 20 years
Machinery and equipment	6 to 15 years
Water and wastewater system	10 to 50 years
Airport facilities and improvements	20 to 45 years
Buildings, facilities and land improvements	15 to 45 years
Infrastructure	20 to 50 years
Organizational cost of acquired MUDs	40 years

N. Compensated Absences

Employees earn vacation based on years of service with the City. Employees are paid unused vacation time to a maximum of 160 hours upon termination, depending on longevity, but may not otherwise elect to be paid in lieu of vacation.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Sick leave credit accrues at the rate of one day for each month of service. Full-time employees are, upon voluntary termination in good standing or retirement, paid for unused sick leave to a maximum of 40 or 80 hours of such pay, depending on years of service.

O. Debt Service

The full amount estimated to be required for debt service on general obligation debt is provided by (1) the debt service portion of the tax levy; (2) interest earned in the Debt Service Fund; and (3) operating transfers from the Utility System Enterprise Fund. Transfers from the Enterprise Funds are approved at the discretion of City Council and are not intended to service a specific bond series.

P. Reclassifications

Certain reclassifications to prior year balances have been made to conform to current year presentation. Such reclassifications have had no effect on the excess of revenues over expenditures.

Q. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds, using the same basis of accounting as for financial reporting. All annual appropriations lapse at fiscal year end. Project length budgets are adopted for the Capital Project Funds. The City, for management control, approves a financial plan for the Enterprise and Internal Service Funds. City Council approves the annual budget for the component units included in the City's financial reporting entity.

Expenditures may not legally exceed budgeted appropriations at the department level (i.e. general government, administrative services, etc.). Expenditure requests, which would require an increase in total budgeted appropriations, must be approved by City Council through a formal budget amendment. At any time in the fiscal year, the Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. The Council has the power to transfer any unencumbered funds allocated by the budget from one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget.

Management has the authority to transfer available funds allocated by the budget from one function/department or activity to another function or activity within the same department.

In cooperation with the department heads of the City and the Budget Manager, the City Manager prepares an annual budget for the General Fund, Special Revenue Funds, and Debt Service Fund for the ensuing fiscal year, in a form and style as deemed desirable by the City Manager. The City Manager shall submit to the Council, for its review, consideration, and revision, both a letter describing the proposed new budget, as well as a balanced budget for the forthcoming fiscal year, not later than sixty (60) days prior to the end of the current fiscal year. The budget, as adopted, must set forth the appropriations for services, functions, and activities of the various City departments and agencies, and shall meet all fund requirements provided by law and required by bond covenants. Capital projects are budgeted on a project-length basis.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Amounts reported in the accompanying financial statements represent the original budgeted amount plus all supplemental appropriations.

B. Deficit Equity

The Sugar Land Development Corporation and Sugar Land 4B Corporation had deficit net assets invested in capital assets, net of related debt balances of \$3,870,000 and \$15,060,000, respectively, as of September 30, 2004. The deficits are due to the fact that capital outlay from these discretely presented component units are reflected as part of the City's capital asset additions, as these capital expenditures directly benefit the City. The related debt, however, is retained by the component units.

NOTE 3 - CASH AND INVESTMENTS

The City's cash and investments are classified as: cash and cash equivalents, investments, and restricted cash and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, short-term investments in a privately-managed public funds investment pool account (TexPool) and repurchase agreements. The investments, which have maturities at purchase of greater than three months, consist mainly of U.S. Government treasury bills, treasury notes, and other U.S. Government obligations. The restricted cash and investments are assets restricted for specific use. The restricted cash and investments include cash on deposit with financial institutions, TexPool, and U.S. Government Securities. For better management of cash, the City pools the cash, based on the City's needs, into either deposits in the bank/sweep accounts, in short term investments with TexPool, or in longer-term investments in U.S. Government Securities. However, each fund's balance of cash and investments is maintained in the books of the City.

The Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act (Chapter 2256 Texas Government Code). The investments of the City are in compliance with the Council's investment policies. It is the City's policy to restrict its investments to direct obligations of the U.S. Government or U.S. Government Agencies, fully collateralized certificates of deposit and other interest-bearing time and demand deposits, and other instruments and obligations authorized by statute such as the Texas Local Government Investment Pool (TexPool), a special purpose trust company authorized by the Texas Legislature in 1986.

State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. City policy requires the collateralization level to be at least 102% of market value of principal and accrued interest.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Cash and Cash Equivalents

Credit Risk Categorization for Deposits

Cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are:

- | | |
|---------------------|--|
| Category 1 - | Deposits which are insured or collateralized with securities held by the City or by its agent in the City's name. |
| Category 2 - | Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. |
| Category 3 - | Deposits which are collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the City's name. |

At September 30, 2004, the carrying amount of the City's cash deposited in banks was \$175,582. All of the bank balances at this date were covered by federal depository insurance. (Category 1 above per GASB statement number 3).

Sweep Investment

The Sweep Investment arrangement with the bank provides that the collected balance remaining in the account at the end of the day be transferred to a Money Market Mutual Fund. If cash is required, the bank will transfer amounts to the deposit account from the Money Market Mutual Fund. The Money Market Mutual Fund invests in securities issued or guaranteed as to principal and interest by the U.S. Government or its agencies or instrumentalities and repurchase agreements in respect to these securities. The Fund is rated AAAM by Standard & Poors rating service and Aaaa by Moody's rating service. The Money Market Mutual Fund is not insured nor guaranteed by either the U.S. Government nor the bank. The Money Market Mutual Fund is not evidenced by securities that exist in physical or book entry form and, accordingly, is not categorized by risk (see investments below). The Sweep Investment is recorded at fair value of the City's investment in the Money Market Mutual Fund (\$2,344,593).

Short Term Investments-TexPool

The Texas Local Government Investment Pool (TexPool) amount of \$26,858,600, which approximates market value, is not evidenced by securities that exist in physical or book entry form and, accordingly, are not categorized by risk (see investments below). However, the nature of these funds requires that they be used to purchase investments authorized by the Public Funds Investment Act. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments.

Investments

To comply with the reporting requirements of GASB Statement No. 3, "Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", the City's investments are categorized under "Investment Categories" to give an indication of credit risk assumed by the City at year-end. Credit risk is the risk that another party to a deposit or investment transaction will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement, will decline. Market risk is not depicted in this note.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Similar to cash deposits, investments can be categorized according to three levels of risk. These three levels of risk are:

- Category 1 -** Investments that are insured or registered or securities held by the City or the City's agent in the City's name.
- Category 2 -** Investments that are uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name.
- Category 3 -** Uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

At year-end, the City's investment balances, including component units, were as follows:

	<u>Category</u>	<u>Amount</u>
U.S. Government Securities		
U.S. Treasury Notes and Bills	1	\$ 8,041,074
Federal National Mortgage Association Notes	1	18,977,152
		<u>27,018,226</u>
Repurchase Agreements	1	<u>9,686</u>
Investments Not Subject to Categorization (Grouped with Cash and Cash Equivalents)		
Sweep Investment		2,344,593
TexPool		26,858,600
Total Investments		<u><u>\$ 56,231,105</u></u>

Unrestricted investments of \$22,743,901 per the balance sheet, plus investments included in restricted cash and investments of \$4,274,325 equal to the carrying amount of U.S. Government Securities of \$27,018,226.

The U.S. Government Securities investment amounts above include \$2,697,088 of the Sugar Land Development Corporation and \$3,154,652 of the Sugar Land 4B Corporation, and the repurchase agreements amount of \$9,686 relates to the Sugar Land Town Square Development Authority, all entities of which are discretely presented component units.

The City generally holds all U.S. Government Securities to maturity date. All the U.S. Government Securities had maturity dates at date of purchase greater than three months. The City did not have any derivative investment products during the current year.

The fair values of the U.S. Government and Agency Securities are based on quoted market prices. The investments are reported at Fair Value in accordance with Governmental Accounting Standards Board Statement (GASB) No. 31 "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The increase or decrease in the fair value of investments is recorded in investment income. The amount of increase or decrease in the fair value of investments during the year ended September 30, 2004, was not significant.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Restricted Cash and Temporary Investments

As of September 30, 2004, the Enterprise Funds held restricted cash and temporary investments for the following purposes:

Customer deposits	\$ 288,042
Revenue bond debt service	1,189,006
Reserve and emergency	1,390,364
Capital improvements	2,398,342
Total	\$ 5,265,754

Component Unit Restricted Cash and Temporary Investments

As of September 30, 2004, the Sugar Land Development Corporation and Sugar Land 4B Corporation held restricted cash and temporary investments for the following purposes:

	Sugar Land Development Corp.	Sugar Land 4B Corporation	Total
Revenue bond debt service	\$ 776,584	\$ 1,346,872	\$ 2,123,456
Reserve and emergency	583,935	1,460,425	2,044,360
Total	\$ 1,360,519	\$ 2,807,297	\$ 4,167,816

NOTE 4 - RECEIVABLES

Receivables at September 30, 2004 consist of the following:

Primary Government:

Governmental Activities							
	General	Special Revenue	Debt Service	Capital Projects	Internal Service	Business-type Activities	Total
Net Receivables							
Accounts	\$	\$	\$	\$	\$	\$ 2,209,161	\$ 2,209,161
Taxes	5,008,215	191,783	214,391	2,910			5,417,299
Interest	44,764		12,234	18,735	17,617	21,052	114,402
Intergovt'l	906,818	250,183				7,474,907	8,631,908
Other	426,854	23,819		20,958	122,395	38,180	632,206
Total	\$ 6,386,651	\$ 465,785	\$ 226,625	\$ 42,603	\$ 140,012	\$ 9,743,300	\$ 17,004,976

Tax and franchise revenue reported on a government-wide basis excludes \$150,373 of revenue that does not provide current financial resources, and therefore, is not reported in the governmental funds. Additionally, program revenue reported on a government-wide basis includes \$29,495 of fines revenue that does not provide current financial resources, and therefore, is not reported in the governmental funds.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Component Units:

	Sugar Land Development Corporation	Sugar Land 4B Corporation	Total
Receivables			
Taxes	\$ 628,215	\$ 628,215	\$ 1,256,430
Accounts		139,000	139,000
Interest	14,109	19,975	34,084
Total	\$ 642,324	\$ 787,190	\$ 1,429,514

All of the Component Units' receivables are considered collectible.

Receivables and revenues of the Utility Fund (Business-type Activities) are reported net of uncollectible amounts and overpayments. Total uncollectible amounts and overpayments related to receivables and revenues of the current year are as follows:

Uncollectible amounts related to water and sewer charges	\$ 30,176
Overpayments	47,908
Total Uncollectibles and Overpayments of the Current Year	\$ 78,084

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable - general fund	\$ 115,563	\$
Delinquent property taxes receivable - debt service fund	214,391	
Delinquent property taxes receivable - capital projects fund	2,910	
Surety - public improvements - capital projects fund	180,338	
Capital lease with cash held with escrow agent	383,764	
Developer advances for electricity		99,348
Grant monies prior to meeting all eligibility requirements		1,104,506
Mowing liens	6,934	
Total Deferred Revenue for Governmental Funds	\$ 903,900	\$ 1,203,854

Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Central Appraisal District ("CAD") of Fort Bend County, Texas, establishes appraised values. Taxes are levied by the City Council based on the appraised values received from the CAD. The City performs billing and collection of tax levies.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of interfund balances as of September 30, 2004:

Receivable Fund	Payable Fund	Amounts
Due to/from primary government:		
Capital Projects Fund	Sugar Land Development Corp. - CU	415,937
Capital Projects Fund	Sugar Land 4B Corp. - CU	1,177,427
		<u>\$ 1,593,364</u>
Loans to/from primary government:		
Sugar Land Development Corp. - CU	Airport Fund - Enterprise	<u>\$ 911,205</u>

NOTE 6 – CAPITAL ASSETS

A summary of changes in governmental activities capital assets for the year ended September 30, 2004, follows:

	Primary Government		
	Balance Oct. 1, 2003	Increases	(Decreases) Balance Sept. 30, 2004
Governmental Activities:			
Capital assets not being depreciated:			
Land and intangibles	\$ 57,489,997	\$ 252,863	\$ (168,752)
Construction in progress	12,696,136	26,109,596	(11,762,678)
Total capital assets not being depreciated	<u>70,186,133</u>	<u>26,362,459</u>	<u>(11,931,430)</u>
Other capital assets:			
Infrastructure	206,504,992	9,071,237	(1,728,460)
Buildings and improvements	23,930,475	421,676	(30,429)
Machinery and equipment	12,627,246	1,341,168	(509,756)
Furniture and fixtures	100,758	23,784	(10,000)
Total other capital assets	<u>243,163,471</u>	<u>10,857,865</u>	<u>(2,278,645)</u>
Less accumulated depreciation for:			
Infrastructure	(141,302,694)	(8,235,023)	1,705,094
Buildings and improvements	(4,067,663)	(799,640)	17,166
Machinery and equipment	(6,344,128)	(1,429,385)	413,122
Furniture and fixtures	(51,149)	(2,968)	250
Total accumulated depreciation	<u>(151,765,634)</u>	<u>(10,467,016)</u>	<u>2,135,632</u>
Other capital assets, net	<u>91,397,837</u>	<u>390,849</u>	<u>(143,013)</u>
Totals	<u>\$ 161,583,970</u>	<u>\$ 26,753,308</u>	<u>\$ (12,074,443)</u>

The City maintains all capital assets for the component units, with the exception of the Sugar Land Town Square Development Authority. Accordingly, these component unit capital assets are recorded in the governmental activities totals.

Governmental activities capital assets net of accumulated depreciation at September 30, 2004 are comprised of the following:

General capital assets, net	\$ 174,541,311
Internal Service Fund capital assets, net	1,721,524
Total	<u>\$ 176,262,835</u>

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Depreciation was charged to governmental functions as follows:

General government	\$ 113,252
Administrative services	11,179
Public works	8,396,648
Parks and recreation	515,647
Community development	10,986
Public safety-Police	477,817
Public safety-Fire	536,049
In addition, depreciation on capital assets held by the City's internal service funds is charged to various functions based on their usage of the assets	<u>405,438</u>
Total Governmental Activities Depreciation Expense	<u><u>\$ 10,467,016</u></u>

Following is capital assets activity for business-type activities for the fiscal year ended September 30, 2004:

	Balance Oct. 1, 2003	Increases	(Decreases)	Balance Sept. 30, 2004
Business-type Activities:				
Capital assets not being depreciated:				
Land and intangibles	\$ 11,909,104	\$ 195,280	\$	\$ 12,104,384
Construction in progress	4,667,197	8,423,659	(1,397,207)	11,693,649
Total capital assets not being depreciated	<u>16,576,301</u>	<u>8,618,939</u>	<u>(1,397,207)</u>	<u>23,798,033</u>
Other capital assets:				
Infrastructure	178,482,776	4,024,943	(702,697)	181,805,022
Buildings and improvements	5,023,376	29,395	(3,616)	5,049,155
Machinery and equipment	2,567,924	136,100	(70,872)	2,633,152
Furniture and fixtures	3,900			3,900
Total other capital assets	<u>186,077,976</u>	<u>4,190,438</u>	<u>(777,185)</u>	<u>189,491,229</u>
Less accumulated depreciation for:				
Infrastructure	(66,146,547)	(4,463,158)	388,570	(70,221,135)
Buildings and improvements	(986,563)	(161,724)	3,616	(1,144,671)
Machinery and equipment	(1,422,273)	(146,164)	68,483	(1,499,954)
Furniture and fixtures	(1,073)	(195)		(1,268)
Total accumulated depreciation	<u>(68,556,456)</u>	<u>(4,771,241)</u>	<u>460,669</u>	<u>(72,867,028)</u>
Other capital assets, net	117,521,520	(580,803)	(316,516)	116,624,201
Totals	<u><u>\$ 134,097,821</u></u>	<u><u>\$ 8,038,136</u></u>	<u><u>\$ (1,713,723)</u></u>	<u><u>\$ 140,422,234</u></u>

Depreciation was charged to business-type functions as follows:

Water and wastewater	\$ 4,046,834
Airport	<u>724,407</u>
Total Business-type Activities Depreciation Expense	<u><u>\$ 4,771,241</u></u>

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

The City has active construction projects as of September 30, 2004. The projects include various improvements to streets, parks and facilities, the construction of a new city hall, as well as airport and water and wastewater improvements. At year-end, the City's commitments with contractors are as follows:

Project Description	Total In Progress	Remaining Commitment
Airport improvements	\$ 3,411,361	\$ 257,751
Drainage improvements	2,081,430	698,734
Park improvements	2,906,964	560,854
Sugar Land new City Hall	14,088,032	1,637,856
Street improvements	7,978,729	975,110
Traffic improvements	751,642	378,901
Water and wastewater improvements	7,518,545	899,482
Totals	\$ 38,736,703	\$ 5,408,688

Component Unit Capital Assets

The following is a summary of changes in capital assets for the Sugar Land Town Square Development Authority for the fiscal year ended September 30, 2004:

	Balance Oct. 1, 2003	Increases	(Decreases)	Balance Sept. 30, 2004
Capital assets not being depreciated:				
Land	\$ 2,083,221	\$ 177,652	\$	\$ 2,260,873
Total capital assets not being depreciated	<u>2,083,221</u>	<u>177,652</u>		<u>2,260,873</u>
Other capital assets:				
Buildings and improvements	14,840,481	813,123	(380,104)	15,273,500
Machinery and equipment	1,479,027	1,041,611	(1,508,745)	1,011,893
Furniture and fixtures	3,540	1,832,025		1,835,565
Total other capital assets	<u>16,323,048</u>	<u>3,686,759</u>	<u>(1,888,849)</u>	<u>18,120,958</u>
Less accumulated depreciation for:				
Buildings and improvements		(169,706)		(169,706)
Machinery and equipment		(71,735)		(71,735)
Furniture and fixtures		(127,426)		(127,426)
Total accumulated depreciation		<u>(368,867)</u>		<u>(368,867)</u>
Other capital assets, net	<u>16,323,048</u>	<u>3,317,892</u>	<u>(1,888,849)</u>	<u>17,752,091</u>
Totals	\$ 18,406,269	\$ 3,495,544	\$ (1,888,849)	\$ 20,012,964

Depreciation was charged to the component unit functions as follows:

Sugar Land Town Square Development Authority	<u>\$ 368,867</u>
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City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE 7 - LONG-TERM DEBT

A. General Obligation Bonds and Certificates of Obligation

The City issues general obligation bonds and certificates of obligation and, upon annexation or dissolution of Municipal Utility Districts, assumes unlimited tax and revenue obligations. The assumed obligations were used to acquire and construct major capital facilities. General obligation bonds, certificates of obligation, and assumed obligations from dissolved and annexed areas are for both governmental and business-type activities. The bonds are reported in the Proprietary Funds only if they are expected to be repaid from proprietary revenues. The general long-term bonds, certificates of obligation and assumed obligations are paid through the Debt Service Fund from tax revenues.

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2004. In general, the City uses the General and Debt Service funds to liquidate governmental long-term liabilities.

	<u>Balance</u> <u>Oct. 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Sept. 30, 2004</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 83,755,445	\$ 5,435,000	\$ (8,651,457)	\$ 80,538,988	\$ 9,001,758
Certificates of obligation	25,700,000		(1,000,000)	24,700,000	1,045,000
Annexed utility district bonds	12,480,000		(735,000)	11,745,000	560,000
Less: deferred amounts on refundings	(218,214)		16,071	(202,143)	
Total bonds payable	121,717,231	5,435,000	(10,370,386)	116,781,845	10,606,758
Obligations under capital leases	1,822,892	383,764	(507,473)	1,699,183	559,732
Obligation to State	398,869		(15,341)	383,528	15,341
Accretion of interest on capital appreciation bonds	2,227,132		(497,361)	1,729,771	958,937
Compensated absences	1,172,872	137,336	(45,957)	1,264,251	50,000
Total Governmental Activities	<u>\$ 127,338,996</u>	<u>\$ 5,956,100</u>	<u>\$ (11,436,518)</u>	<u>\$ 121,858,578</u>	<u>\$ 12,190,768</u>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

A summary of the terms of general obligation bonds and certificates of obligation, as of September 30, 2004, follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
General Obligation Bonds				
Series 1994 bonds	\$ 7,000,000	2005	5.5-5.6	\$ 350,000
Series 1995 refunding bonds	15,900,000	2015	3.9-6.0	6,480,000
Series 1996 bonds	10,600,000	2011	5.125-5.3	3,710,000
Series 1996-A refunding bonds	13,344,798	2016	4.55-5.75	8,678,988
Series 1998-A refunding bonds	19,560,000	2018	3.8-5.5	15,910,000
Series 1999 general obligation & refunding	7,275,000	2022	4.6-6.0	6,040,000
Series 2001 general obligation & refunding	12,085,000	2021	4.0-5.25	10,205,000
Series 2003 general obligation refunding	18,350,000	2015	2.5-5.0	15,880,000
Series 2003A general obligation refunding	8,400,000	2017	2.0-4.0	7,850,000
Series 2004 bonds	5,435,000	2024	2.5-4.0	5,435,000
Total General Obligation Bonds				<u><u>\$ 80,538,988</u></u>
Certificates of Obligation				
Series 2002 Tax and HOT revenue bonds	\$ 10,100,000	2026	4.2-5.75	\$ 9,865,000
Series 2003 Tax and revenue bonds	15,600,000	2018	3.4-4.4	14,835,000
				<u><u>\$ 24,700,000</u></u>
Annexed Utility District Bonds				
<i>First Colony Municipal Utility District</i>				
<i>No. 2 (FC MUD 2)</i>				
Series 1996 refunding bonds	\$ 2,350,000	2009	4.7-6.1	\$ 765,000
Series 1997 bonds	3,310,000	2018	4.9-5.0	2,745,000
Series 1997-A bonds	2,170,000	2020	5.0-5.375	1,860,000
<i>First Colony Municipal Utility District</i>				
<i>No. 4 (FC MUD 4)</i>				
Series 1996 bonds	3,725,000	2014	4.25-5.75	2,390,000
<i>First Colony Municipal Utility District</i>				
<i>No. 8 (FC MUD 8)</i>				
Series 1993-A bonds	2,530,000	2006	4.9-5.75	245,000
Series 1995 bonds	2,430,000	2014	5.5-5.95	2,230,000
<i>For Bend County Municipal Utility District</i>				
<i>No. 27 (FBC MUD 27)</i>				
Series 1996	2,000,000	2012	4.75-5.5	1,510,000
Total Annexed Utility District Bonds				<u><u>\$ 11,745,000</u></u>

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Accreted Interest on Capital Appreciation Bonds

On Capital Appreciation bonds, the interest is paid upon maturity of the bonds. In order to properly reflect the amounts payable on these bonds, the annual interest is added to the long-term liabilities as accretion of interest on capital appreciation bonds. These obligations have a principal value of \$2,133,988 and a maturity value of \$4,070,000. The interest on these obligations will be paid upon maturity in the fiscal years 2005 through 2006. The accreted value of these bonds at September 30, 2004, was \$3,863,759, including accreted interest on these bonds of \$1,729,770. The accretion is reflected as interest in the debt service requirements table.

	Maturity Value of Bonds	Original Bond Principal Amount	Accrued Interest on Bonds	Accreted Value of Bond at Year End
City of Sugar Land Series 1996A	\$ 3,185,000	\$ 2,018,988	\$ 1,007,326	\$ 3,026,314
FC MUD 2 Series 1996	450,000	15,000	408,041	423,041
FC MUD 4 Series 1996	315,000	90,000	210,852	300,852
FC MUD 8 Series 1995	120,000	10,000	103,551	113,551
Total	<u>\$ 4,070,000</u>	<u>\$ 2,133,988</u>	<u>\$ 1,729,770</u>	<u>\$ 3,863,758</u>

Prior Year Refunding

In prior years, the City defeased certain general obligation and other bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2004, \$7,625,000 of previously refunded bonds outstanding were considered defeased.

Capital Lease Obligations

The City has entered into certain capital lease agreements in order to purchase fire equipment, public safety and management information systems equipment. The capital lease obligations are paid out of the General Fund.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

Following is a summary of future lease payments due on this equipment:

Fiscal Year	Principal	Interest	Lease Obligations
2005	\$ 559,732	\$ 62,810	\$ 622,542
2006	362,209	36,546	398,755
2007	148,906	26,061	174,967
2008	154,073	20,895	174,968
2009	159,420	15,548	174,968
2010	134,758	10,011	144,769
2011	78,144	5,897	84,041
2012	49,974	3,538	53,512
2013	51,967	1,545	53,512
Total	\$ 1,699,183	\$ 182,851	1,882,034
Less interest portion			(182,851)
Obligations under Capital Leases			\$ 1,699,183

B. Enterprise Fund Debt

The following is a summary of changes in the City's total business-type long-term liabilities for the year ended September 30, 2004.

	Balance October 1, 2003	Additions	Reductions	Balance Sept. 30, 2004	Amounts Due within One Year
Business-type Activities:					
Bonds payable:					
Water and wastewater rev. bonds	\$ 19,415,000	\$	\$ (1,250,000)	\$ 18,165,000	\$ 1,255,000
Airport revenue bonds and CO's	2,215,000		(290,000)	1,925,000	300,000
Less: unamortized refunding balance	(340,500)		36,250	(304,250)	
	<u>21,630,000</u>		<u>(1,540,000)</u>	<u>19,785,750</u>	<u>1,555,000</u>
Other liabilities:					
Compensated absences	144,696	24,043	(11,916)	156,823	15,000
Total Business-type Activities	\$ 21,774,696	\$ 24,043	\$ (1,551,916)	\$ 19,942,573	\$ 1,570,000

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

A summary of the terms of certificates of obligation and revenue bonds recorded in the Enterprise Funds as of September 30, 2004, is as follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
<u>Utility System Fund</u>				
Series 1997 Waterworks and Sewer System Revenue Refunding Bonds	\$ 4,580,000	2012	3.85-5.0	\$ 2,215,000
Series 1997 Waterworks and Sewer System Revenue Bonds	3,485,000	2018	3.10-4.35	2,930,000
Series 1997 Regional Waste Disposal Contract Revenue Bonds	3,365,000	2012	3.10-4.35	3,065,000
Series 1999 Waterworks and Sewer System Revenue Refunding Bonds	8,620,000	2015	4.0-5.25	5,675,000
Series 2002 Waterworks and Sewer System Revenue Bonds	3,215,000	2022	.6-3.95	2,945,000
Series 2002A Waterworks and Sewer System Revenue Bonds	1,440,000	2022	4.0-5.5	1,335,000
Total Utility System Fund				<u>18,165,000</u>
<u>Airport Fund</u>				
Series 1991 Airport Refunding Bonds	2,905,000	2006	5.1-7.0	400,000
Series 1998 Combination Tax and Revenue Certificates of Obligation	400,000	2006	4.0-4.6	100,000
Series 2003A Combination Tax and Revenue Certificates of Obligation	1,465,000	2023	4.0-4.6	1,425,000
Total Airport Fund				<u>1,925,000</u>
Total Enterprise Long-Term Debt				20,090,000
Less unamortized refunding difference				<u>(304,250)</u>
Net Enterprise Long-Term Debt				19,785,750
Less current portion				1,555,000
Long term portion				<u>\$ 18,230,750</u>

Prior Year Refunding

In the 1997 refunding of the revenue bonds, the difference between the reacquisition price and the net carrying amount of old debt was \$330,000 and is being amortized over the life of the new debt, which is 15 years. The unamortized balance at September 30, 2004, is \$176,000. In the 1999 refunding of the revenue bonds, the difference between the reacquisition price and the net carrying amount of the old debt was \$210,000 and is being amortized over the life of the new debt, which is 15 years. The unamortized balance at September 30, 2004, on the 1999 refunding is \$128,250.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

C. Annual Debt Service Requirements

The annual requirements to amortize notes and bonds outstanding at September 30, 2004, including interest payments, are as follows:

Year Ending Sept. 30,	Governmental Activities		Business-type Activities	
	City and Annexed G.O. Bonds	City C.O. Bonds	Bonds	Total
2005	\$ 14,525,379	\$ 2,085,231	\$ 2,429,406	\$ 19,040,016
2006	13,984,156	2,088,003	2,359,115	18,431,274
2007	11,851,515	2,093,806	2,050,433	15,995,754
2008	11,301,656	2,099,733	1,997,996	15,399,385
2009	10,287,189	2,103,606	1,949,870	14,340,665
2010	9,798,333	2,108,968	1,894,118	13,801,419
2011	9,472,400	2,111,929	1,843,736	13,428,065
2012	8,897,620	2,122,535	1,788,192	12,808,347
2013	6,868,899	2,129,855	1,746,913	10,745,667
2014	5,785,784	2,137,518	1,698,526	9,621,828
2015	4,223,482	2,146,180	1,644,376	8,014,038
2016	3,056,528	2,150,043	1,249,199	6,455,770
2017	2,685,560	2,158,728	1,225,881	6,070,169
2018	2,153,786	2,171,628	1,191,537	5,516,951
2019	1,392,394	746,305	446,006	2,584,705
2020	1,367,074	745,180	450,591	2,562,845
2021	1,159,297	747,680	443,663	2,350,640
2022	633,029	748,383	446,056	1,827,468
2023	287,786	747,273	112,475	1,147,534
2024	275,940	749,505		1,025,445
2025		749,953		749,953
2026		748,615		748,615
	120,007,807	35,690,657	26,968,089	182,666,553
Less interest	(27,723,819)	(10,990,657)	(6,878,089)	(45,592,565)
	<u>\$ 92,283,988</u>	<u>\$ 24,700,000</u>	<u>\$ 20,090,000</u>	<u>\$ 137,073,988</u>

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

D. Component Unit Long-Term Debt

The following is a summary of the long-term debt transactions of the Sugar Land Development Corporation and the Sugar Land 4B Corporation for the year ended September 30, 2004:

	Balance October 1, 2003	Additions	Reductions	Balance Sept. 30, 2004	Amounts Due within One Year
<u>Sugar Land Development Corp.</u>					
Sales tax revenue bonds	\$ 3,870,000	\$	\$ (920,000)	\$ 2,950,000	\$ 900,000
Obligation to State	71,250		(2,740)	68,510	2,740
<u>Sugar Land 4B Corporation</u>					
Sales tax revenue bonds	15,060,000		(935,000)	14,125,000	980,000
Obligation to State	42,618		(1,639)	40,979	1,639
	<u>\$ 19,043,868</u>	<u>\$</u>	<u>\$ (1,859,379)</u>	<u>\$ 17,184,489</u>	<u>\$ 1,884,379</u>

A summary of the terms of the revenue bonds recorded as long-term liabilities in the Sugar Land Development Corporation and Sugar Land 4B Corporation as of September 30, 2004 follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
<u>Sugar Land Development Corporation</u>				
Series 2001 Sales Tax Revenue Bonds	\$ 5,490,000	2007	4.25-5.0	\$ 2,950,000
<u>Sugar Land 4B Corporation</u>				
Series 2001 Sales Tax Revenue Bonds	7,610,000	2021	4.75-5.75	5,860,000
Series 2002 Sales Tax Revenue Bonds	8,810,000	2022	4.2-5.75	<u>8,265,000</u>
Total Component Unit Long-Term Debt				<u>\$ 17,075,000</u>

E. Obligations to State – Refund of Sales Tax

During the 1999 fiscal year, the Texas State Comptroller of Public Accounts notified the City of Sugar Land, the Sugar Land Development Corporation, and the Sugar Land 4B Corporation, that the State had remitted \$591,620 in sales tax receipts to the City, which were not collected within the City. The State requested the amount be returned to the State. The City had allocated the sales tax to the Corporations in accordance with the proper sales tax rates. The City settled with the State to repay the State in annual installments of \$19,721 starting October 1, 1999, over a 30-year period without interest. The balances of the advanced monies from the State of \$383,528, \$68,510, and \$40,979 are owed by the City (77.79%), Sugar Land Development Corporation (13.9%) and 4B Corporation (8.31%), respectively at September 30, 2004.

F. Legal Compliance

Long-term debt assumed by the City upon dissolution of annexed municipal utility districts in previous years has been recorded as part of the City's long-term debt. A portion of the assumed debt is related to assets recorded in the Water and Wastewater Fund. Even though the debt is related to assets recorded in the Water and Wastewater Fund, the debt is considered general obligation debt based on Texas law. The annexed area debt will be retired with tax revenue and operating transfers from the Water and Wastewater Fund. The operating transfers from the Water and Wastewater Fund to the Debt Service Fund are not

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

intended to service specific general obligation debt. At the discretion of City Council, the Water and Wastewater Fund made an operating transfer to the Debt Service Fund as indicated on the transfer schedule of \$3,613,862. General obligation bonds of the City in the amount of \$19,660,000 were authorized and unissued at September 30, 2004.

NOTE 8 - RESERVED FUND BALANCES

The City records fund balance reserves on the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures. The following is a list of fund balance reserves recognized by the City.

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Component Units</u>
Encumbrances	\$ 1,028,035	\$	\$	\$	\$
Prepaid items	40,220				5,389
Inventory	103,509				
Loans					911,205
Tourism		199,792			
Court		191,223			
Debt service			6,653,939		4,167,816
Capital improvmts.				10,940,665	
Public safety		87,103			
Economic develop.					4,428,125
Totals	<u>\$ 1,171,764</u>	<u>\$ 478,118</u>	<u>\$ 6,653,939</u>	<u>\$ 10,940,665</u>	<u>\$ 9,512,535</u>

NOTE 9 – RESTATEMENTS OF FUND EQUITY

Beginning governmental activities net assets were restated from \$87,407,601 to \$82,773,116 to reflect an increase of \$48,702 in net assets of previously reported private purpose trust funds that are special revenue funds at the beginning of the year and a decrease of \$4,683,187 in beginning capital assets. Of this decrease, \$3.6 million related to infrastructure assets incorrectly booked as assets of the City, when in fact these assets were actually owned by the State.

Beginning component unit net assets were restated from \$12,300,709 to \$13,249,709 to reflect an increase of \$949,000 in capital assets at the beginning of the year. The increase relates to land originally booked to the City's governmental activities.

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE 10 - INTERFUND TRANSACTIONS

A summary of interfund transfers, the purpose of which is to cover operational expenses/expenditures, for the year ended September 30, 2004, is as follows:

Transfers Out	Transfers In	Amounts
General Fund	Capital Projects Fund	\$ 2,347,233
General Fund	Utility System Fund	57,861
General Fund	Solid Waste Management Fund	46,550
General Fund	Airport Fund	406,718
General Fund	Internal Service-Property Insurance Fund	29,550
General Fund	Internal Service-Fleet Replacement Fund	455,166
General Fund	Internal Service-High-Tech. Replacement Fund	406,452
General Fund	LLEBG Fund	1,742
Debt Service Fund	Airport Fund	110,323
Tourism Fund	Debt Service Fund	540,000
Capital Projects Fund	General Fund	200,000
Capital Projects Fund	Utility System Fund	3,828,197
Utility System Fund	General Fund	1,415,400
Utility System Fund	Debt Service Fund	3,613,862
Utility System Fund	Internal Service-Property Insurance Fund	17,950
Utility System Fund	Internal Service-Fleet Replacement Fund	62,766
Utility System Fund	Internal Service-High-Tech. Replacement Fund	10,967
Solid Waste Management Fund	Internal Service-Fleet Replacement Fund	3,172
Solid Waste Management Fund	Internal Service-High-Tech. Replacement Fund	272
Airport Fund	General Fund	338,000
Airport Fund	Internal Service-Property Insurance Fund	2,500
Airport Fund	Internal Service-Fleet Replacement Fund	16,392
Airport Fund	Internal Service-High-Tech. Replacement Fund	5,727
		\$ 13,916,800

NOTE 11 - CONTRACTS WITH SPECIAL DISTRICTS

Contract with Brazos River Authority

In 1973, the City, together with four other users, entered into a thirty-year contract with the Brazos River Authority ("BRA") to develop a regional wastewater treatment facility. During the original contract, additional bonds were issued on behalf of the City, extending the City's contract until the bonds are paid off in 2009. The BRA is a regional authority, established under the laws of the State of Texas. The City's annual cost covers the City's proportionate costs of the wastewater facility, including the debt service (bond principal and interest). The City's annual costs are not funded from tax revenues and are limited to revenues from wastewater charges to residents of the City. The City does not control BRA, has no ownership of the BRA's assets, and does not guarantee any of its debt; therefore, it is not considered a joint venture. The annual payments to the BRA have been recorded in the Utility System Enterprise Fund as operating expenses. Payments during the year ended September 30, 2004 totaled \$2,786,839.

Agreements with Utility Districts

The City has entered into utility agreements with two Fort Bend County Municipal Utility Districts (Fort Bend County MUD No. 21; and Eldridge Road MUD) (the "Districts"), which are within the City's boundaries. The Districts are to acquire and

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

construct water, wastewater, and drainage facilities to serve the area within the Districts and may issue bonds to finance such facilities. Such agreements provide the following:

As water, wastewater and drainage facilities are acquired and constructed, the Districts will transfer the facilities to the City, reserving a security interest therein for the purpose of securing performance of the City under the agreements. At such time as the bonds of the Districts are discharged, the Districts will release the security interest, and the City will own the improvements.

The water and wastewater rates charged by the City will be equal and uniform to those charged other similar users within the City, with all revenues belonging exclusively to the City.

The City has agreed to pay the Districts a tax rebate of the ad valorem taxes collected on land and improvements within the Districts. The rebates for the year ended September 30, 2004, were \$892,235.

The City has entered into an agreement with various Fort Bend County Municipal Utility Districts within the Greatwood and River Park subdivisions (MUD's) within the City's extraterritorial jurisdiction (ETJ), for funding the operating expenses relating to a fire station located within the Greatwood subdivision. The City received \$864,483 from the participating MUD's for the year ending September 30, 2004 in connection with this agreement.

NOTE 12 - LEASE AGREEMENT WITH SUGAR LAND HOTEL ASSOCIATES, L.P.

In 2002, the Sugar Land Town Square Development Authority (the "Authority"), a component unit of the City, entered into a ninety-nine year lease agreement with Sugar Land Hotel Associates, L.P. (the "Tenant") for the rental of the Sugar Land Conference Center and Parking Garage (the "Property"), owned by the Authority. The Tenant has the right to use the property and has agreed to operate the Property in a "first class manner," as defined in the lease agreement, paying the Authority a base rent of \$1 per lease year, plus an incentive rent, as determined by the lease agreement, within 15 days after the Authority's receipt of an annual statement that presents the net cash flow and any net sale proceeds for the preceding lease year.

NOTE 13 - EMPLOYEE RETIREMENT SYSTEM

Plan Description and Provisions

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), one of over 794 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated, with interest, if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. Effective January 2002, a member is vested after 5 years. Prior to this change, members were vested after 10 years. The plan

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

provisions are adopted by the City Council of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for employees is 7%, and the matching percent is currently 2 to 1 (200%), both as adopted by the City Council of the City. Under the state law governing TMRS, the Actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

The City's total payroll in fiscal year 2004 was \$21,882,950 and the City's contributions were based on a payroll of \$21,507,386. Contributions made by employees totaled \$1,505,518, and the City made contributions of \$2,477,093 during the fiscal year ended September 30, 2004.

Three year trend information is presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Annual Pension Cost (APC)	\$ 2,477,093	\$ 2,258,937	\$ 2,014,251
Percentage of APC Contributed	100%	100%	100%
NPO at the End of Period	\$ 0	\$ 0	\$ 0

Because the actuary determines contribution rates on an annual basis and the City pays the calculated rate each month, the City will always have a net pension obligation (NPO) of zero at the beginning and end of the period, and the annually required contributions (ARC) will always equal contributions made.

A schedule of funding progress for TMRS for the three most recent actuarial valuations may be found in the required supplementary information section of the City's Comprehensive Annual Financial Report.

All assumptions for the December 31, 2003 valuations are contained in the 2003 TMRS Comprehensive Annual Financial Report, a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153. The following is a summary of the actuarial assumptions:

Actuarial Cost Method	Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	25 Years – Open Period
Asset Valuation Method	Amortized Cost
Actuarial Assumptions:	
Investment Rate of Return	7%
Projected Salary Increases	None
Includes Inflation At	None
Cost-of-Living Adjustments	None

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE 14 - DEFERRED COMPENSATION PLAN

The City maintains, for its employees, a tax-deferred compensation plan meeting the requirements of Internal Revenue Code Section 457. The plan was established in the 1995 fiscal year by City Ordinance, and Nationwide Retirement Solutions and SRC Retirement Corporation were appointed as plan administrators. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency. The plan's trust arrangements are established to protect deferred compensation amounts of employees under the plan from any other use other than intended under the plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under plan provisions are disbursed bi-weekly by the City to a third party administrator. The third party administrator handles all funds in the plan and makes investment decisions and disburses funds to employees in accordance with plan provisions.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Construction Contract Commitments

The City had a number of capital improvement commitments at September 30, 2004. These commitments and their related capital improvement construction in progress are summarized in Note 6.

Litigation and Other Contingencies

The City was involved in various lawsuits and arbitration proceedings at September 30, 2004. The City and its legal counsel believe that any amounts, which the City might ultimately be required to pay, will not exceed underlying insurance coverage.

Federally Assisted Programs - Compliance Audits

The City receives various grants, which are subject to audit by the respective agencies. Subsequent audits may disallow expenditures financed by government grants. It is the opinion of management that any disallowed expenditures, based on prior audit experience, will not be material in relation to the City's financial statements as of September 30, 2004.

Arbitrage Rebate

In accordance with the provisions of the Internal Revenue Code, sections 103, 103A, and 148, as amended, a governmental debt issuance must qualify and maintain tax-exempt status by satisfying certain arbitrage requirements contained in these provisions. As part of the requirements, certain amounts earned on the non-purpose investment of debt issuance proceeds, in excess of the yield on an issue, earned as arbitrage, will be required to be paid to the U.S. Treasury. As part of this process, the City annually determines potential arbitrage liabilities on its debt issues, on component unit debt issues and on debt issues assumed by the City from various Municipal Utility Districts.

Reimbursement due to Developer

The City, along with the Sugar Land Town Square TIRZ (the "TIRZ"), a component unit of the City, have entered into an agreement with a developer to reimburse the developer the amount of actual project costs of the Town Square Improvements not to exceed \$11,500,000 plus interest incurred by the developer. The City will reimburse the developer in two installments. The first payment of 50% plus interest on the project costs will be due at the latter of January 1, 2005 or certification of at least \$47,000,000 in appraised value on the property within the TIRZ, the commencement of construction of the Hotel/Conference Center, the completion of a 150,000 square foot office building within the boundaries of the TIRZ, and the completion of at least 90,000 square feet of retail space within the boundaries of the TIRZ with at least a 90% tenant occupancy rate. The remaining 50% plus interest is due at the latter of January 1, 2009 or certification of at least \$85,000,000 in appraised value on the property within the TIRZ, the completion and opening of the Hotel/Conference Center, the completion of a second office building of at least 150,000 square feet within the boundaries of the TIRZ, and the completion of at least 180,000 square feet of

City of Sugar Land, Texas

NOTES TO FINANCIAL STATEMENTS

September 30, 2004

retail space within the boundaries of the TIRZ with at least a 90% tenant occupancy rate. No payments have been made under this agreement as of September 30, 2004.

NOTE 16 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program mainly encompasses obtaining property and liability insurance through Texas Municipal League's Intergovernmental Risk-Pool (TML-IRP), and through commercial insurance carriers. The participation of the City in TML-IRP is limited to payment of premiums. The City has not had any significant reduction in insurance coverage, and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The Property Insurance Internal Service Fund handles property claims for the City and absorbs the loss for any amounts below the deductible amounts. This fund is periodically funded by the General and Enterprise Funds.

The City also provides Workers' Compensation insurance on its employees through TML-Workers' Compensation Fund. Workers' Compensation premiums are subject to change when audited by TML-Workers' Compensation Fund. At year-end September 30, 2004, the City believed the amounts paid on Workers' Compensation would not change significantly from the amounts recorded.

Employee Benefits Fund

The City has established an Employee Benefits Fund - Internal Service Fund. The purpose of this fund is to provide health insurance and other benefits for the City employees and their covered dependents to minimize the total cost of annual medical insurance to the City. During 2004, the City contracted with a commercial insurance carrier to provide health coverage for all City employees. Premium payments and collection of employee contributions and City contributions from the General Fund and Enterprise funds are recorded in the Employee Benefits Fund. Payments of premiums and administrative fees are paid out of this fund. The City's liability is limited to payment of premiums to the insurance carrier.

NOTE 17 – SUBSEQUENT EVENTS

Subsequent to year-end, the City issued \$5.36 million of general obligation refunding bonds, the proceeds of which will be used to refund \$5.345 million of outstanding bonds. The bonds have maturity dates ranging from 2006 to 2015 with interest rates ranging from 3.0% to 4.0%.

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S
DISCUSSION AND ANALYSIS (UNAUDITED)**

City of Sugar Land, Texas

SCHEDULE OF FUNDING PROGRESS - TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)

The City's annual covered payroll and pension costs are actuarially valued on a calendar year basis. Because the City makes all the annually required contributions, no net pension obligation (NPO) exists. The information presented below represents the City's Schedule of Funding Progress.

Fiscal year	<u>2004</u>	<u>2003</u>	<u>2002</u>
Actuarial Valuation date	12/31/2003	12/31/2002	12/31/2001
Actuarial Value of Assets	\$ 36,737,922	\$ 32,261,020	\$ 27,445,650
Actuarial Accrued Liability	\$ 46,232,213	\$ 39,805,813	\$ 33,954,303
Percentage Funded	79.5%	81.0%	80.8%
Unfunded Actuarial			
Accrued Liability	\$ 9,494,291	\$ 7,544,793	\$ 6,508,653
Annual Covered Payroll	\$ 20,919,662	\$ 18,939,179	\$ 17,178,522
Unfunded Actuarial Accrued Liab. (UAAL) % of Cov. Payroll	45.4%	39.8%	37.9%

OTHER SUPPLEMENTARY INFORMATION
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COMBINING STATEMENTS, BUDGET SCHEDULES
AND COMPARATIVE STATEMENTS

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NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

These funds are used to account for specific revenues that are legally restricted for particular purposes.

Tourism Fund

This fund is used to account for revenues received from a room occupancy tax and expenditures for the promotion of tourism and the convention and hotel industry.

Court Security Fund

This fund is used to account for the revenues and expenditures related to the fees from court fines used for Court Security as set up by State Statute.

Community Development Block Grant (CDBG) Fund

This fund is used to account for the community development block grant that is funding revitalization projects for substandard housing within the City.

Court Technology Fund

This fund is used to account for revenues and expenditures related to fees from court fines used for Court Technology improvements as set up by State Statute.

Greatwood Fire Station No. 6 Fund

This fund is used to account for revenues received from municipal utility districts located in the Greatwood subdivision and expenditures for the fire station's operations.

Local Law Enforcement Block Grant (LLEBG) Fund

This fund is used to account for the law enforcement block grant, the proceeds of which are used by the Police department.

State Seizures Fund

This fund is used to account for revenues and expenditures from asset forfeitures used for the Police department.

Federal Seizures Fund

This fund is used to account for revenues and expenditures from asset seizures used for the Police department.

City of Sugar Land, Texas

COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS September 30, 2004

	Special Revenue				
				Greatwood	
	Tourism	Court Security	CDBG	Court Technology	Fire Station No. 6
<u>Assets</u>					
Cash and temporary investments	\$ 218,542	\$ 37,813	\$	\$ 155,308	\$ 87,375
Grants receivable			250,183		
Other receivables					23,819
Prepaid expenditures					26,756
Total Assets	\$ 218,542	\$ 37,813	\$ 250,183	\$ 155,308	\$ 137,950
<u>Liabilities and Fund Balances</u>					
<u>Liabilities</u>					
Accounts payable	\$ 18,750	\$ 1,898	\$ 13,252	\$	\$ 7,287
Accrued liabilities			34,688		62,889
Deferred revenue			202,243		
Total Liabilities	18,750	1,898	250,183		70,176
<u>Fund Balances</u>					
Reserved					
Tourism	199,792				
Court		35,915		155,308	
Police					
Fire protection					67,774
Total Fund Balances	199,792	35,915		155,308	67,774
Total Liabilities and Fund Balances	\$ 218,542	\$ 37,813	\$ 250,183	\$ 155,308	\$ 137,950

Funds			
LLEBG	State Seizures	Federal Seizures	Totals
\$ 8,334	\$ 10,429	\$ 25	\$ 517,826
			250,183
			23,819
	760		27,516
<u>\$ 8,334</u>	<u>\$ 11,189</u>	<u>\$ 25</u>	<u>\$ 819,344</u>
\$	\$ 219	\$	\$ 41,406
			97,577
			202,243
<u></u>	<u>219</u>	<u></u>	<u>341,226</u>
			199,792
			191,223
8,334	10,970	25	19,329
			67,774
<u>8,334</u>	<u>10,970</u>	<u>25</u>	<u>478,118</u>
<u>\$ 8,334</u>	<u>\$ 11,189</u>	<u>\$ 25</u>	<u>\$ 819,344</u>

City of Sugar Land, Texas
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended September 30, 2004

					Special Revenue
	Tourism	Court Security	CDBG	Court Technology	Greatwood Fire Station No. 6
<u>Revenues</u>					
Hotel occupancy tax	\$ 598,574	\$	\$	\$	\$
Fines and forfeitures		36,417		48,488	
Investment income	1,927	373		1,534	332
Intergovernmental revenue			222,689		5,000
Charges for services					864,483
Total Revenues	600,501	36,790	222,689	50,022	869,815
<u>Expenditures</u>					
Current:					
General government	75,000				
Administration		40,197		27,402	
Community development			222,689		
Public safety-Police					
Public safety-Fire					735,288
Debt Service					53,512
Total Expenditures	75,000	40,197	222,689	27,402	788,800
Excess (Deficiency) of Revenues Over (Under) Expenditures	525,501	(3,407)		22,620	81,015
<u>Other Financing Sources (Uses)</u>					
Transfers in					
Transfers out	(540,000)				
Total Other Financing Sources (Uses)	(540,000)				
Net Change in Fund Balances	(14,499)	(3,407)		22,620	81,015
Fund Balances, beginning of year	214,291	39,322		132,688	(13,241)
Fund Balances, End of Year	\$ 199,792	\$ 35,915	\$	\$ 155,308	\$ 67,774

Funds			
LLEBG	State Seizures	Federal Seizures	Totals
\$	\$	\$	\$ 598,574
			84,905
127	255	12	4,560
15,681			243,370
			864,483
<u>15,808</u>	<u>255</u>	<u>12</u>	<u>1,795,892</u>
			75,000
			67,599
			222,689
26,931	17,587	2,672	47,190
			735,288
			53,512
<u>26,931</u>	<u>17,587</u>	<u>2,672</u>	<u>1,201,278</u>
(11,123)	(17,332)	(2,660)	594,614
1,742			1,742
			(540,000)
<u>1,742</u>			<u>(538,258)</u>
(9,381)	(17,332)	(2,660)	56,356
17,715	28,302	2,685	421,762
<u>\$ 8,334</u>	<u>\$ 10,970</u>	<u>\$ 25</u>	<u>\$ 478,118</u>

City of Sugar Land, Texas
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

Year Ended September 30, 2004

With Comparative Totals for the Year Ended September 30, 2003

	2004			
	Budget	Actual	Variance Over (Under)	2003 Actual
<u>Revenues</u>				
Property taxes	\$ 12,052,711	\$ 12,038,653	\$ (14,058)	\$ 12,138,712
Investment income	88,713	95,463	6,750	128,901
Total Revenues	<u>12,141,424</u>	<u>12,134,116</u>	<u>(7,308)</u>	<u>12,267,613</u>
<u>Expenditures</u>				
Administrative	599,841	593,149	6,692	555,291
Debt service	16,476,434	16,450,605	25,829	15,819,137
Total Expenditures	<u>17,076,275</u>	<u>17,043,754</u>	<u>32,521</u>	<u>16,374,428</u>
(Deficiency) of Revenues (Under) Expenditures	(4,934,851)	(4,909,638)	25,213	(4,106,815)
Other Financing Sources (Uses)				
Bonds issued				27,336,473
Transfers in	4,153,862	4,153,862		3,519,404
Transfers in - component unit	194,476	194,476		206,233
Transfers (out)	(116,632)	(110,323)	6,309	(95,665)
Payment to refunded bond escrow agent				(26,889,670)
Total Other Financing Sources (Uses)	<u>4,231,706</u>	<u>4,238,015</u>	<u>6,309</u>	<u>4,076,775</u>
Net Change in Fund Balances	(703,145)	(671,623)	31,522	(30,040)
Fund Balance, beginning of year	<u>7,325,562</u>	<u>7,325,562</u>		<u>7,355,602</u>
Fund Balance, End of Year	<u>\$ 6,622,417</u>	<u>\$ 6,653,939</u>	<u>\$ 31,522</u>	<u>\$ 7,325,562</u>

City of Sugar Land, Texas
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
TOURISM SPECIAL REVENUE FUND
Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	2004			
	Budget	Actual	Variance Over (Under)	2003 Actual
<u>Revenues</u>				
Hotel occupancy tax	\$ 605,467	\$ 598,574	\$ (6,893)	\$ 264,589
Investment income	1,378	1,927	549	4,217
Total Revenues	606,845	600,501	(6,344)	268,806
<u>Expenditures</u>				
Current:				
General government	80,000	75,000	5,000	120,626
Total Expenditures	80,000	75,000	5,000	120,626
Excess of Revenues Over Expenditures	526,845	525,501	(1,344)	148,180
Other Financing Sources (Uses)				
Transfers (out)	(540,000)	(540,000)		(300,000)
Total Other Financing Sources (Uses)	(540,000)	(540,000)		(300,000)
Net Change in Fund Balances	(13,155)	(14,499)	(1,344)	(151,820)
Fund Balances, beginning of year	214,291	214,291		366,111
Fund Balances, End of Year	\$ 201,136	\$ 199,792	\$ (1,344)	\$ 214,291

City of Sugar Land, Texas
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
COURT SECURITY SPECIAL REVENUE FUND
Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	2004			
	Budget	Actual	Variance Over (Under)	2003 Actual
<u>Revenues</u>				
Other revenue	\$ 37,098	\$ 36,417	\$ (681)	\$ 49,858
Investment income	332	373	41	407
Total Revenues	37,430	36,790	(640)	50,265
<u>Expenditures</u>				
Current:				
Administration	41,112	40,197	915	40,029
Total Expenditures	41,112	40,197	915	40,029
(Deficiency) of Revenues (Under) Expenditures	(3,682)	(3,407)	275	10,236
Fund Balances, beginning of year	39,322	39,322		29,086
Fund Balances, End of Year	\$ 35,640	\$ 35,915	\$ 275	\$ 39,322

City of Sugar Land, Texas
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CDBG SPECIAL REVENUE FUND
Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	2004			2003
	Budget	Actual	Variance Over (Under)	Actual
<u>Revenues</u>				
Intergovernmental revenue	\$ 424,932	\$ 222,689	\$ (202,243)	\$ 277,070
Total Revenues	<u>424,932</u>	<u>222,689</u>	<u>(202,243)</u>	<u>277,070</u>
<u>Expenditures</u>				
Current:				
Community development	424,932	222,689	202,243	273,070
Total Expenditures	<u>424,932</u>	<u>222,689</u>	<u>202,243</u>	<u>273,070</u>
Excess of Revenues Over Expenditures				4,000
Other Financing (Uses)				
Transfers (out)				(4,000)
Net Change in Fund Balances				
Fund Balances, beginning of year				
Fund Balances, End of Year	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

City of Sugar Land, Texas
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
COURT TECHNOLOGY SPECIAL REVENUE FUND
Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	2004			
	Budget	Actual	Variance Over (Under)	2003 Actual
<u>Revenues</u>				
Other revenue	\$ 49,464	\$ 48,488	\$ (976)	\$ 66,325
Investment income	1,317	1,534	217	1,734
Total Revenues	50,781	50,022	(759)	68,059
<u>Expenditures</u>				
Current:				
Administration	60,000	27,402	32,598	49,340
Total Expenditures	60,000	27,402	32,598	49,340
Excess of Revenues Over Expenditures	(9,219)	22,620	31,839	18,719
Fund Balances, beginning of year	132,688	132,688		113,969
Fund Balances, End of Year	\$ 123,469	\$ 155,308	\$ 31,839	\$ 132,688

City of Sugar Land, Texas
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GREATWOOD FIRE STATION NO. 6 SPECIAL REVENUE FUND
Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	2004			
	Budget	Actual	Variance Over (Under)	2003 Actual
<u>Revenues</u>				
Charges for services	\$ 856,117	\$ 864,483	\$ 8,366	\$ 135,432
Intergovernmental revenue		5,000	5,000	
Investment income	40	332	292	1,916
Total Revenues	<u>856,157</u>	<u>869,815</u>	<u>13,658</u>	<u>137,348</u>
<u>Expenditures</u>				
Current:				
Public safety-Fire	793,786	788,800	4,986	586,471
Total Expenditures	<u>793,786</u>	<u>788,800</u>	<u>4,986</u>	<u>586,471</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>62,371</u>	<u>81,015</u>	<u>18,644</u>	<u>(449,123)</u>
Other Financing Sources				
Capital lease proceeds				435,882
Net Change in Fund Balances	<u>62,371</u>	<u>81,015</u>	<u>18,644</u>	<u>(13,241)</u>
Fund Balances, beginning of year	<u>(13,241)</u>	<u>(13,241)</u>		
Fund Balances (Deficit), End of Year	<u>\$ 49,130</u>	<u>\$ 67,774</u>	<u>\$ 18,644</u>	<u>\$ (13,241)</u>

City of Sugar Land, Texas
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SUGAR LAND DEVELOPMENT CORPORATION - COMPONENT UNIT
Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	2004		Variance	
	Budget	Actual	Over	2003
			(Under)	Actual
<u>Revenues</u>				
Sales tax	\$ 3,626,268	\$ 3,665,587	\$ 39,319	\$ 3,312,772
Other				10,000
Investment income	84,562	91,738	7,176	102,450
Total Revenues	<u>3,710,830</u>	<u>3,757,325</u>	<u>46,495</u>	<u>3,425,222</u>
<u>Expenditures</u>				
Current:				
General government	602,393	462,848	139,545	698,133
Debt Service	<u>1,081,125</u>	<u>1,081,122</u>	<u>3</u>	<u>1,094,691</u>
Total Expenditures	<u>1,683,518</u>	<u>1,543,970</u>	<u>139,548</u>	<u>1,792,824</u>
Excess of Revenues Over Expenditures	2,027,312	2,213,355	186,043	1,632,398
Other Financing (Uses)				
Transfers (out) to primary government	<u>(3,083,306)</u>	<u>(2,083,214)</u>	<u>1,000,092</u>	<u>(1,584,772)</u>
Total Other Financing (Uses)	<u>(3,083,306)</u>	<u>(2,083,214)</u>	<u>1,000,092</u>	<u>(1,584,772)</u>
Net Change in Fund Balances	(1,055,994)	130,141	1,186,135	47,626
Fund Balances, beginning of year	<u>5,354,091</u>	<u>5,354,091</u>		<u>5,306,465</u>
Fund Balances, End of Year	<u>\$ 4,298,097</u>	<u>\$ 5,484,232</u>	<u>\$ 1,186,135</u>	<u>\$ 5,354,091</u>

City of Sugar Land, Texas
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SUGAR LAND 4B CORPORATION - COMPONENT UNIT

Year Ended September 30, 2004
 With Comparative Totals for the Year Ended September 30, 2003

	2004		Variance	2003
	Budget	Actual	Over (Under)	Actual
<u>Revenues</u>				
Sales tax	\$ 3,626,268	\$ 3,665,587	\$ 39,319	\$ 3,312,772
Other	20,000		(20,000)	
Investment income	58,777	63,197	4,420	70,559
Total Revenues	<u>3,705,045</u>	<u>3,728,784</u>	<u>23,739</u>	<u>3,383,331</u>
<u>Expenditures</u>				
Current:				
General government	343,534	287,230	56,304	392,250
Debt Service	<u>1,663,835</u>	<u>1,663,007</u>	<u>828</u>	<u>1,670,475</u>
Total Expenditures	<u>2,007,369</u>	<u>1,950,237</u>	<u>57,132</u>	<u>2,062,725</u>
Excess of Revenues Over Expenditures	1,697,676	1,778,547	80,871	1,320,606
Other Financing Sources (Uses)				
Transfers in from component unit	139,000	139,000		
Transfers (out) to primary government	<u>(4,341,596)</u>	<u>(3,008,277)</u>	<u>1,333,319</u>	<u>(1,069,181)</u>
Total Other Financing Sources (Uses)	<u>(4,202,596)</u>	<u>(2,869,277)</u>	<u>1,333,319</u>	<u>(1,069,181)</u>
Net Change in Fund Balances	(2,504,920)	(1,090,730)	1,414,190	251,425
Fund Balances, beginning of year	<u>5,035,017</u>	<u>5,035,017</u>		<u>4,783,592</u>
Fund Balances, End of Year	<u>\$ 2,530,097</u>	<u>\$ 3,944,287</u>	<u>\$ 1,414,190</u>	<u>\$ 5,035,017</u>

City of Sugar Land, Texas
COMPARATIVE BALANCE SHEETS
CAPITAL PROJECTS FUND
September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 8,788,158	\$ 15,303,744
Investments	3,449,670	8,710,284
Accounts receivable:		
Property taxes	2,910	11,030
Accrued interest	18,735	57,215
Other	20,894	20,893
Prepaid expenditures	64	
Due from component units	<u>1,593,364</u>	<u>38,728</u>
 Total Assets	 <u><u>\$ 13,873,795</u></u>	 <u><u>\$ 24,141,894</u></u>
 <u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Accounts payable	\$ 1,818,814	\$ 1,561,960
Retainage payable	931,068	227,370
Deferred revenue	<u>183,248</u>	<u>11,180</u>
Total Liabilities	<u><u>2,933,130</u></u>	<u><u>1,800,510</u></u>
 <u>Fund Balances</u>		
Reserved		
Capital improvement programs	<u>10,940,665</u>	<u>22,341,384</u>
Total Fund Balances	<u><u>10,940,665</u></u>	<u><u>22,341,384</u></u>
 Total Liabilities and Fund Balances	 <u><u>\$ 13,873,795</u></u>	 <u><u>\$ 24,141,894</u></u>

City of Sugar Land, Texas
COMPARATIVE SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
CAPITAL PROJECTS FUND
Year Ended September 30, 2004
With Comparative Totals for the Year Ended September 30, 2003

	<u>2004</u>	<u>2003</u>
<u>Revenues</u>		
Property taxes	\$ 67	\$ 70
Investment income	223,928	243,863
Intergovernmental	5,187,340	1,500,000
Other	235,414	835,901
Total Revenues	<u>5,646,749</u>	<u>2,579,834</u>
<u>Expenditures</u>		
Capital outlay	<u>24,999,470</u>	<u>13,017,150</u>
(Deficiency) of Revenues (Under) Expenditures	(19,352,721)	(10,437,316)
<u>Other Financing Sources (Uses)</u>		
Long-term debt issued	5,435,000	15,600,000
Transfers in	2,347,233	3,046,212
Transfers in - component unit	4,197,966	2,315,747
Transfers (out)	(4,028,197)	(200,000)
Total Other Financing Sources (Uses)	<u>7,952,002</u>	<u>20,761,959</u>
Net Change in Fund Balances	(11,400,719)	10,324,643
Fund Balances, beginning of year	<u>22,341,384</u>	<u>12,016,741</u>
Fund Balances, End of Year	<u><u>\$ 10,940,665</u></u>	<u><u>\$ 22,341,384</u></u>

City of Sugar Land, Texas
COMPARATIVE BALANCE SHEETS
UTILITY SYSTEM FUND
September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 1,409,237	\$ 2,433,880
Investments	1,601,641	807,514
Accounts receivable:		
Customer accounts	1,804,592	1,548,295
Accrued interest	21,052	12,737
Other	4,415	5,932
Prepaid expenses	4,792	7,620
Inventory	87,611	76,549
Total Current Assets	<u>4,933,340</u>	<u>4,892,527</u>
<u>Restricted Cash and</u>		
<u>Temporary Investments</u>		
Customer deposits	288,042	284,499
Revenue bond debt service	1,183,034	1,132,352
Reserve and contingency	1,390,364	1,429,479
Capital improvements	1,658,759	7,656,791
Total Restricted Cash and		
Temporary Investments	<u>4,520,199</u>	<u>10,503,121</u>
<u>Property, Plant, and Equipment</u>		
Land	2,176,826	2,109,009
Buildings and improvements	463,760	463,760
Infrastructure	174,058,480	170,736,234
Machinery and equipment	695,025	654,819
Construction in progress	8,282,288	4,252,674
	<u>185,676,379</u>	<u>178,216,496</u>
Accumulated depreciation	<u>(65,213,881)</u>	<u>(61,577,396)</u>
Net Property, Plant, and Equipment	<u>120,462,498</u>	<u>116,639,100</u>
Total Assets	<u><u>\$ 129,916,037</u></u>	<u><u>\$ 132,034,748</u></u>

City of Sugar Land, Texas
COMPARATIVE BALANCE SHEETS
UTILITY SYSTEM FUND
September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Liabilities and Fund Equity</u>		
<u>Liabilities</u>		
<u>Current Liabilities Payable from</u>		
<u>Current Assets</u>		
Accounts payable	\$ 810,204	\$ 1,552,862
Accrued liabilities	100,732	68,759
Compensated absences	111,577	93,601
Retainage payable	<u>208,047</u>	<u>138,224</u>
Total Current Liabilities		
Payable from Current Assets	<u>1,230,560</u>	<u>1,853,446</u>
<u>Current Liabilities Payable from</u>		
<u>Restricted Assets</u>		
Revenue bonds payable-		
current portion	1,255,000	1,250,000
Deferred revenue	203,059	108,336
Accrued interest payable	100,696	107,074
Customer deposits	<u>294,464</u>	<u>291,310</u>
Total Current Liabilities		
Payable from Restricted Assets	<u>1,853,219</u>	<u>1,756,720</u>
<u>Revenue bonds payable -</u>		
<u>less current portion</u>	<u>16,605,750</u>	<u>17,824,500</u>
Total Liabilities	<u>19,689,529</u>	<u>21,434,666</u>
<u>Fund Equity</u>		
Retained earnings:		
Reserved for restricted assets	4,520,199	10,503,121
Unreserved	<u>105,706,309</u>	<u>100,096,961</u>
Total Retained Earnings	<u>110,226,508</u>	<u>110,600,082</u>
Total Liabilities and		
Fund Equity	<u>\$ 129,916,037</u>	<u>\$ 132,034,748</u>

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City of Sugar Land, Texas
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
UTILITY SYSTEM FUND
Year Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Operating Revenues</u>		
Charges for services	\$ 15,812,450	\$ 15,278,512
Total Operating Revenues	<u>15,812,450</u>	<u>15,278,512</u>
<u>Operating Expenses</u>		
Cost of goods and services	9,967,908	8,121,718
Depreciation	4,046,834	4,001,987
Total Operating Expenses	<u>14,014,742</u>	<u>12,123,705</u>
Operating Income	<u>1,797,708</u>	<u>3,154,807</u>
<u>Non-Operating Revenues (Expenses)</u>		
Investment income	128,635	217,842
(Loss) on disposal of equipment	(229,869)	
Interest and fiscal charges	(835,161)	(960,639)
Total Non-Operating Revenues	<u>(936,395)</u>	<u>(742,797)</u>
Income Before Transfers	861,313	2,412,010
<u>Transfers In (Out)</u>		
Transfers in	3,886,058	
Transfers (out)	(5,120,945)	(4,735,248)
Total Transfers In (Out)	<u>(1,234,887)</u>	<u>(4,735,248)</u>
Net Income (Loss)	(373,574)	(2,323,238)
Retained earnings, beginning of year	<u>110,600,082</u>	<u>112,923,320</u>
Retained Earnings, End of Year	<u><u>\$ 110,226,508</u></u>	<u><u>\$ 110,600,082</u></u>

City of Sugar Land, Texas
COMPARATIVE BALANCE SHEETS
SOLID WASTE MANAGEMENT FUND
September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
<u>Current Assets</u>		
Accounts receivable:		
Customer accounts	\$ 288,352	\$ 267,952
Other	31,530	100
Prepays	8,529	
Total Current Assets	<u>328,411</u>	<u>268,052</u>
 Total Assets	 <u><u>\$ 328,411</u></u>	 <u><u>\$ 268,052</u></u>
 <u>Liabilities and Fund Equity</u>		
<u>Liabilities</u>		
<u>Current Liabilities Payable from</u>		
<u>Current Assets</u>		
Accounts payable	\$ 184,547	\$ 5,972
Accrued liabilities	27,401	148,031
Deferred revenue	18,295	
Compensated absences	2,354	2,418
Total Liabilities	<u>232,597</u>	<u>156,421</u>
 <u>Fund Equity</u>		
Retained earnings:		
Unreserved	95,814	111,631
Total Retained Earnings	<u>95,814</u>	<u>111,631</u>
 Total Liabilities and		
Fund Equity	 <u><u>\$ 328,411</u></u>	 <u><u>\$ 268,052</u></u>

City of Sugar Land, Texas
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
SOLID WASTE MANAGEMENT FUND
Year Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Operating Revenues</u>		
Charges for services	\$ 2,575,996	\$ 2,289,787
Other	1,362	937
Total Operating Revenues	<u>2,577,358</u>	<u>2,290,724</u>
<u>Operating Expenses</u>		
Cost of goods and services	2,667,768	2,401,184
Total Operating Expenses	<u>2,667,768</u>	<u>2,401,184</u>
Operating (Loss)	<u>(90,410)</u>	<u>(110,460)</u>
<u>Non-Operating Revenues</u>		
Investment income		17
Grant revenue	31,487	
Total Non-Operating Revenues	<u>31,487</u>	<u>17</u>
(Loss) Before Transfers	(58,923)	(110,443)
Transfers In (Out)		
Transfers in	46,550	143,539
Transfers (out)	(3,444)	(2,018)
Total Transfers In (Out)	<u>43,106</u>	<u>141,521</u>
Net Income (Loss)	(15,817)	31,078
Retained earnings, beginning of year	<u>111,631</u>	<u>80,553</u>
Retained Earnings, End of Year	<u>\$ 95,814</u>	<u>\$ 111,631</u>

City of Sugar Land, Texas

COMPARATIVE BALANCE SHEETS

AIRPORT FUND

September 30, 2004 and 2003

	2004	2003
<u>Assets</u>		
<u>Current Assets</u>		
Cash and cash equivalents	\$ 714,315	\$ 628,575
Investments	99,840	298,833
Accounts receivable:		
Customer accounts	116,217	69,594
Intergovernmental	7,474,907	
Other	2,235	367
Due from component unit		17,873
Inventory	112,709	56,368
Total Current Assets	8,520,223	1,071,610
<u>Restricted Cash and Temporary Investments</u>		
Debt service	5,972	5,375
Capital improvements	739,583	1,467,278
Total Restricted Cash and Temporary Investments	745,555	1,472,653
<u>Property, Plant, and Equipment</u>		
Land	9,927,558	9,800,096
Buildings and improvements	4,585,395	4,559,616
Infrastructure	7,746,542	7,746,542
Machinery and equipment	1,942,027	1,917,005
Construction in progress	3,411,361	414,522
	27,612,883	24,437,781
Accumulated depreciation	(7,653,147)	(6,979,060)
Net Property, Plant, and Equipment	19,959,736	17,458,721
Total Assets	\$ 29,225,514	\$ 20,002,984
<u>Liabilities and Fund Equity</u>		
<u>Liabilities</u>		
<u>Current Liabilities</u>		
Accounts payable	\$ 146,561	\$ 197,692
Accrued liabilities	57,927	48,817
Compensated absences	42,892	48,677
Deferred revenue	7,592,083	91,255
Loans-due to component unit	911,205	1,055,403
Revenue bonds payable - current portion	300,000	290,000
Accrued interest payable	9,586	17,399
Total Current Liabilities	9,060,254	1,749,243
Revenue bonds payable - less current portion	1,625,000	1,925,000
Total Liabilities	10,685,254	3,674,243
<u>Fund Equity</u>		
Retained earnings:		
Reserved for restricted assets	745,555	1,472,653
Unreserved	17,794,705	14,856,088
Total Retained Earnings	18,540,260	16,328,741
Total Liabilities and Fund Equity	\$ 29,225,514	\$ 20,002,984

City of Sugar Land, Texas
COMPARATIVE SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
AIRPORT FUND
Year Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Operating Revenues</u>		
Charges for services	\$ 6,112,367	\$ 4,747,403
Total Operating Revenues	<u>6,112,367</u>	<u>4,747,403</u>
<u>Operating Expenses</u>		
Cost of goods and services	4,730,288	3,651,828
Depreciation	724,407	695,507
Total Operating Expenses	<u>5,454,695</u>	<u>4,347,335</u>
Operating Income	<u>657,672</u>	<u>400,068</u>
<u>Non-Operating Revenues (Expenses)</u>		
Investment income	19,709	10,809
Gain (loss) on disposal of equipment	23,845	(35,371)
Grant revenue	1,446,569	29,894
Interest and fiscal charges	(144,323)	(147,596)
Total Non-Operating Revenues (Expenses)	<u>1,345,800</u>	<u>(142,264)</u>
Income Before Transfers and Contributions	2,003,472	257,804
Transfers and Contributions		
Contributions - component units	53,625	131,974
Transfers in	517,041	139,943
Transfers (out)	(362,619)	(382,776)
Total Transfers and Contributions	<u>208,047</u>	<u>(110,859)</u>
Net Income	2,211,519	146,945
Retained earnings, beginning of year	<u>16,328,741</u>	<u>16,181,796</u>
Retained Earnings, End of Year	<u><u>\$ 18,540,260</u></u>	<u><u>\$ 16,328,741</u></u>

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INTERNAL SERVICE FUNDS

These funds have been established to account for the financing of services provided by one department or fund to other departments or funds of the City on a cost reimbursement basis.

Property Insurance Fund

This fund is used to account for all financial resources for the payment of uninsured insurance claims and deductibles for liability and property losses.

Employee Benefits Fund

This fund is used to account for all financial resources for employee benefits provided to employees.

Fleet Replacement Fund

This fund is used to account for all financial resources for vehicle and equipment replacement.

High-Technology Replacement Fund

This fund is used to account for all financial resources for electronic and radio equipment replacement.

City of Sugar Land, Texas
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
September 30, 2004

	<u>Property Insurance</u>	<u>Employee Benefits</u>	<u>Fleet Replacement</u>	<u>High- Technology Replacement</u>	<u>Totals</u>
<u>Assets</u>					
<u>Current Assets</u>					
Cash and cash equivalents	\$ 37,791	\$ 110,789	\$ 53,899	\$ 164,275	\$ 366,754
Investments			912,999	1,110,041	2,023,040
<u>Accounts receivable:</u>					
Accrued interest			7,618	9,999	17,617
Other	117,653	4,742			122,395
Prepaid expenses		44,573			44,573
Total Current Assets	<u>155,444</u>	<u>160,104</u>	<u>974,516</u>	<u>1,284,315</u>	<u>2,574,379</u>
<u>Capital assets:</u>					
Vehicles and equipment			2,866,842	595,792	3,462,634
Accumulated depreciation			(1,541,081)	(200,029)	(1,741,110)
Capital assets, net of accumulated depreciation			<u>1,325,761</u>	<u>395,763</u>	<u>1,721,524</u>
Total Assets	<u>\$ 155,444</u>	<u>\$ 160,104</u>	<u>\$ 2,300,277</u>	<u>\$ 1,680,078</u>	<u>\$ 4,295,903</u>
<u>Liabilities and Net Assets</u>					
<u>Current Liabilities</u>					
Accounts payable	\$ 6,857	\$ 5,435	\$ 891	\$	\$ 13,183
Deferred revenue		6,443			6,443
Total Liabilities	<u>6,857</u>	<u>11,878</u>	<u>891</u>		<u>19,626</u>
<u>Net Assets</u>					
Invested in capital assets, net of related debt			1,325,761	395,763	1,721,524
Unrestricted	148,587	148,226	973,625	1,284,315	2,554,753
Total Net Assets	<u>\$ 148,587</u>	<u>\$ 148,226</u>	<u>\$ 2,299,386</u>	<u>\$ 1,680,078</u>	<u>\$ 4,276,277</u>

City of Sugar Land, Texas
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
Year Ended September 30, 2004

	Property Insurance	Employee Benefits	Fleet Replacement	High- Technology Replacement	Totals
<u>Operating Revenues</u>					
Insurance settlements	\$ 249,479	\$	\$	\$	\$ 249,479
Premium contributions		3,298,062			3,298,062
Total Operating Revenues	<u>249,479</u>	<u>3,298,062</u>			<u>3,547,541</u>
<u>Operating Expenses</u>					
Cost of goods and services	312,644	3,260,106	11,926	45,364	3,630,040
Depreciation			344,448	60,990	405,438
Total Operating Expenses	<u>312,644</u>	<u>3,260,106</u>	<u>356,374</u>	<u>106,354</u>	<u>4,035,478</u>
Operating Income (Loss)	<u>(63,165)</u>	<u>37,956</u>	<u>(356,374)</u>	<u>(106,354)</u>	<u>(487,937)</u>
<u>Non-Operating Revenues (Expenses)</u>					
Gain (loss) on asset disposal			16,404	6,175	22,579
Investment income	1,564	823	10,099	15,373	27,859
Total Non-Operating Revenues (Expenses)	<u>1,564</u>	<u>823</u>	<u>26,503</u>	<u>21,548</u>	<u>50,438</u>
(Loss) Before Operating Transfers	<u>(61,601)</u>	<u>38,779</u>	<u>(329,871)</u>	<u>(84,806)</u>	<u>(437,499)</u>
<u>Transfers</u>					
Transfers in	50,000		537,496	423,418	1,010,914
Total Transfers	<u>50,000</u>		<u>537,496</u>	<u>423,418</u>	<u>1,010,914</u>
Net Income (Loss)	<u>(11,601)</u>	<u>38,779</u>	<u>207,625</u>	<u>338,612</u>	<u>573,415</u>
Net assets, beginning	<u>160,188</u>	<u>109,447</u>	<u>2,091,761</u>	<u>1,341,466</u>	<u>3,702,862</u>
Net Assets, Ending	<u>\$ 148,587</u>	<u>\$ 148,226</u>	<u>\$ 2,299,386</u>	<u>\$ 1,680,078</u>	<u>\$ 4,276,277</u>

City of Sugar Land, Texas
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year Ended September 30, 2004

	Property Insurance	Employee Benefits	Fleet Replacement	High- Technology Replacement	Totals
<u>Cash Flows from Operating Activities</u>					
Receipts from customers	\$ 131,826	\$ 3,260,073	\$	\$	\$ 3,391,899
Payments to suppliers	(307,525)	(3,263,485)	(15,137)	(45,370)	(3,631,517)
Net Cash (Used by) Operating Activities	(175,699)	(3,412)	(15,137)	(45,370)	(239,618)
<u>Cash Flows from Noncapital Financing Activities</u>					
Transfers in	50,000		537,496	423,418	1,010,914
Net Cash Provided from Noncapital Financing Activities	50,000		537,496	423,418	1,010,914
<u>Cash Flows from Capital & Related Financing Activities</u>					
Proceeds from the sale of equipment			87,498	90	87,588
Purchase of equipment			(402,199)	(245,481)	(647,680)
Net Cash (Used by) Capital and Related Financing Activities			(314,701)	(245,391)	(560,092)
<u>Cash Flows from Investing Activities</u>					
Purchase of investments			(930,226)	(1,059,449)	(1,989,675)
Sale of investments			425,000	550,000	975,000
Interest on investments	1,564	823	10,099	15,373	27,859
Net Cash Provided from (Used by) Investing Activities	1,564	823	(495,127)	(494,076)	(986,816)
(Decrease) in Cash and Cash Equivalents	(124,135)	(2,589)	(287,469)	(361,419)	(775,612)
Cash and cash equivalents, beginning	161,926	113,378	341,368	525,694	1,142,366
Cash and Cash Equivalents, Ending	<u>\$ 37,791</u>	<u>\$ 110,789</u>	<u>\$ 53,899</u>	<u>\$ 164,275</u>	<u>\$ 366,754</u>
<u>Cash Flows from Operating Activities</u>					
Operating Income (Loss)	\$ (63,165)	\$ 37,956	\$ (356,374)	\$ (106,354)	\$ (487,937)
Adjustment to Reconcile Operating Income					
Net Cash Provided from Operating Activities					
Depreciation			344,448	60,990	405,438
(Increase) Decrease in Operating Assets:					
Accounts receivable	(117,653)	(2,632)			(120,285)
Prepaid expenses		(39,573)			(39,573)
Increase (Decrease) in Operating Liabilities:					
Accounts payable	5,119	(3,379)	(3,211)	(6)	(1,477)
Deferred revenue		4,216			4,216
Cash Flows (Used by) Operating Activities	<u>\$ (175,699)</u>	<u>\$ (3,412)</u>	<u>\$ (15,137)</u>	<u>\$ (45,370)</u>	<u>\$ (239,618)</u>

DISCRETELY PRESENTED COMPONENT UNITS

These funds are used to account for sales tax (SLDC & SL4B) and incremental property tax revenues (TIRZ) for economic development activities and expenditures associated with promoting, assisting, and enhancing economic and industrial development activities.

Sugar Land Development Corporation (SLDC)

Sugar Land 4B Corporation (SL4B)

Sugar Land Town Square Tax Increment Reinvestment Zone (TIRZ)

Sugar Land Town Square Development Authority

City of Sugar Land, Texas
COMBINING BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNITS
September 30, 2004

	Sugar Land Development Corporation	Sugar Land 4B Corporation	Sugar Land Town Square TIRZ	Sugar Land Town Square Development Authority	Totals
<u>Assets and Other Debits</u>					
<u>Assets</u>					
Cash and cash equivalents	\$ 1,476,030	\$ 140,123	\$ 74,330	\$ 9,686	\$ 1,700,169
Investments	2,204,721	2,054,154			4,258,875
Loans to primary government	911,205				911,205
Accrued interest	14,109	19,975			34,084
Miscellaneous receivable		139,000			139,000
Prepaid expenditures	3,245	2,144			5,389
Restricted cash and investments	1,360,519	2,807,297			4,167,816
Land				2,260,873	2,260,873
Buildings and improvements				15,273,500	15,273,500
Machinery and equipment				1,011,893	1,011,893
Furniture and fixtures				1,835,565	1,835,565
<u>Other Debits</u>					
Amounts to be provided for retirement of long-term debt	2,950,000	14,125,000			17,075,000
Total Assets and Other Debits	\$ 8,919,829	\$ 19,287,693	\$ 74,330	\$ 20,391,517	\$ 48,673,369
<u>Liabilities, Equity and Other Credits</u>					
<u>Liabilities</u>					
Accounts payable	\$ 1,150	\$	\$	\$	\$ 1,150
Due to primary government	415,937	1,177,427			1,593,364
Obligations to State	68,510	40,979			109,489
Revenue bonds payable	2,950,000	14,125,000			17,075,000
Total Liabilities	3,435,597	15,343,406			18,779,003
<u>Equity and Other Credits</u>					
Investment in capital assets				20,381,831	20,381,831
Fund Balances:					
Reserved:					
Loans to primary governnt.	911,205				911,205
Prepaid expenditures	3,245	2,144			5,389
Debt service	1,360,519	2,807,297			4,167,816
Economic development	3,209,263	1,134,846	74,330	9,686	4,428,125
Total Fund Balances	5,484,232	3,944,287	74,330	9,686	9,512,535
Total Equity and Other Credits	5,484,232	3,944,287	74,330	20,391,517	29,894,366
Total Liabilities, Equity and Other Credits	\$ 8,919,829	\$ 19,287,693	\$ 74,330	\$ 20,391,517	\$ 48,673,369

City of Sugar Land, Texas
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
DISCRETELY PRESENTED COMPONENT UNITS
Year Ended September 30, 2004

	Sugar Land Development Corporation	Sugar Land 4B Corporation	Sugar Land Town Square TIRZ	Sugar Land Town Square Development Authority	Totals
<u>Revenues</u>					
Sales tax	\$ 3,665,587	\$ 3,665,587	\$	\$	\$ 7,331,174
Property tax			197,613		197,613
Other				104	104
Investment income	91,738	63,197	108	11,624	166,667
Total Revenues	<u>3,757,325</u>	<u>3,728,784</u>	<u>197,721</u>	<u>11,728</u>	<u>7,695,558</u>
<u>Expenditures</u>					
Current:					
General government	462,848	287,230	155,121	1,055,285	1,960,484
Debt Service:					
Principal	920,000	935,000			1,855,000
Interest and fiscal charges	161,122	728,007			889,129
Capital Outlay				961,320	961,320
Total Expenditures	<u>1,543,970</u>	<u>1,950,237</u>	<u>155,121</u>	<u>2,016,605</u>	<u>5,665,933</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,213,355	1,778,547	42,600	(2,004,877)	2,029,625
Other Financing Sources (Uses)					
Transfers in from component unit		139,000			139,000
Transfers (out) to component unit				(139,000)	(139,000)
Transfers (out) to primary government	(2,083,214)	(3,008,277)			(5,091,491)
Total Other Financing Sources (Uses)	<u>(2,083,214)</u>	<u>(2,869,277)</u>		<u>(139,000)</u>	<u>(5,091,491)</u>
Net Change in Fund Balances	130,141	(1,090,730)	42,600	(2,143,877)	(3,061,866)
Fund Balances, beginning of year	<u>5,354,091</u>	<u>5,035,017</u>	<u>31,730</u>	<u>2,153,563</u>	<u>12,574,401</u>
Fund Balances, End of Year	<u>\$ 5,484,232</u>	<u>\$ 3,944,287</u>	<u>\$ 74,330</u>	<u>\$ 9,686</u>	<u>\$ 9,512,535</u>

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CAPITAL ASSETS USED IN THE OPERATION
OF GOVERNMENTAL FUNDS

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City of Sugar Land, Texas
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY SOURCE *
September 30, 2004

Governmental Funds Capital Assets:

Land and intangibles	\$ 57,574,108
Buildings, facilities and improvements	24,321,722
Infrastructure	213,847,769
Vehicles and equipment	9,996,024
Furnitures and fixtures	114,542
Construction in progress	27,043,054
Total Governmental Funds Capital Assets	\$ 332,897,219

Investment in Governmental Funds Capital Assets by Source:

General Fund	\$ 62,032,470
Capital Projects Fund	118,085,852
Donations and other	12,536,598
Contributions from utility districts	140,242,299
Total Governmental Funds Capital Assets	\$ 332,897,219

* - This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in the Internal Service Funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental assets in the statement of net assets.

City of Sugar Land, Texas
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY *
September 30, 2004

<u>Department</u>	<u>Land & Intangibles</u>	<u>Buildings, Facilities & Improvements</u>	<u>Infrastructure</u>	<u>Vehicles and Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
Admin. and Finance	\$ 26,766,962	\$	\$	\$ 1,094,248	\$ 39,704	\$ 27,900,914
Public Works						
Streets/drainage	515,221	8,503,316	213,029,701	788,223		222,836,461
Engineering/planning				76,122		76,122
	<u>515,221</u>	<u>8,503,316</u>	<u>213,029,701</u>	<u>864,345</u>		<u>222,912,583</u>
Public Safety						
Police	2,919,001	4,084,476		3,103,284	74,839	10,181,600
Fire	554,236	3,415,916	7,650	4,695,597		8,673,399
	<u>3,473,237</u>	<u>7,500,392</u>	<u>7,650</u>	<u>7,798,881</u>	<u>74,839</u>	<u>18,854,999</u>
Community Services	26,818,688	8,318,013	810,418	238,550		36,185,669
	<u>\$ 57,574,108</u>	<u>\$ 24,321,721</u>	<u>\$ 213,847,769</u>	<u>\$ 9,996,024</u>	<u>\$ 114,543</u>	<u>305,854,165</u>
Construction in Progress						<u>27,043,054</u>
Total Governmental Funds Capital Assets						<u>\$ 332,897,219</u>

* - See note on Exhibit H-1.

City of Sugar Land, Texas
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY *
Year Ended September 30, 2004

<u>Department</u>	<u>Governmental Funds Capital Assets October 1, 2003</u>	<u>Additions and Transfers</u>	<u>Deductions and Transfers</u>	<u>Governmental Funds Capital Assets Sept. 30, 2004</u>
Admin. and Finance	<u>\$ 28,578,892</u>	<u>\$ 278,251</u>	<u>\$ (956,229)</u>	<u>\$ 27,900,914</u>
Public Works				
Streets/drainage	215,810,750	9,088,633	(2,062,922)	222,836,461
Engineering and planning	87,695	3,278	(14,851)	76,122
	<u>215,898,445</u>	<u>9,091,911</u>	<u>(2,077,773)</u>	<u>222,912,583</u>
Public Safety				
Police	10,110,001	160,905	(89,306)	10,181,600
Fire	8,438,824	241,075	(6,500)	8,673,399
	<u>18,548,825</u>	<u>401,980</u>	<u>(95,806)</u>	<u>18,854,999</u>
Community Services	<u>35,368,102</u>	<u>828,967</u>	<u>(11,400)</u>	<u>36,185,669</u>
Construction in Progress	<u>16,299,037</u>	<u>26,109,596</u>	<u>(15,365,579)</u>	<u>27,043,054</u>
Total Governmental Funds Capital Assets	<u>\$ 314,693,301</u>	<u>\$ 36,710,705</u>	<u>\$ (18,506,787)</u>	<u>\$ 332,897,219</u>

* - See note on Exhibit H-1.

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DEBT SCHEDULES

City of Sugar Land, Texas
COMBINING SCHEDULE OF GENERAL LONG-TERM DEBT
BY MATURITY DATE
Year Ended September 30, 2004

Fiscal Year Ending	Total Requirements - Bonds & Capital Leases			Total Requirements - City/Annexed G.O./C.O. Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 11,166,490	\$ 6,066,662	\$ 17,233,152	\$ 10,606,758	\$ 6,003,852	\$ 16,610,610
2006	10,929,439	5,541,476	16,470,915	10,567,230	5,504,930	16,072,160
2007	9,898,906	4,221,382	14,120,288	9,750,000	4,195,321	13,945,321
2008	9,774,073	3,802,284	13,576,357	9,620,000	3,781,389	13,401,389
2009	9,179,420	3,386,344	12,565,764	9,020,000	3,370,796	12,390,796
2010	9,079,758	2,972,313	12,052,071	8,945,000	2,962,302	11,907,302
2011	9,103,144	2,565,227	11,668,371	9,025,000	2,559,330	11,584,330
2012	8,924,974	2,148,691	11,073,665	8,875,000	2,145,153	11,020,153
2013	7,271,967	1,780,299	9,052,266	7,220,000	1,778,754	8,998,754
2014	6,470,000	1,453,304	7,923,304	6,470,000	1,453,304	7,923,304
2015	5,210,000	1,159,662	6,369,662	5,210,000	1,159,662	6,369,662
2016	4,265,000	941,572	5,206,572	4,265,000	941,572	5,206,572
2017	4,095,000	749,289	4,844,289	4,095,000	749,289	4,844,289
2018	3,760,000	565,414	4,325,414	3,760,000	565,414	4,325,414
2019	1,705,000	433,699	2,138,699	1,705,000	433,699	2,138,699
2020	1,765,000	347,254	2,112,254	1,765,000	347,254	2,112,254
2021	1,645,000	261,977	1,906,977	1,645,000	261,977	1,906,977
2022	1,190,000	191,412	1,381,412	1,190,000	191,412	1,381,412
2023	895,000	140,059	1,035,059	895,000	140,059	1,035,059
2024	930,000	95,445	1,025,445	930,000	95,445	1,025,445
2025	695,000	54,953	749,953	695,000	54,953	749,953
2026	730,000	18,615	748,615	730,000	18,615	748,615
	<u>\$ 118,683,171</u>	<u>\$ 38,897,330</u>	<u>\$ 157,580,501</u>	<u>\$ 116,983,988</u>	<u>\$ 38,714,479</u>	<u>\$ 155,698,467</u>

Fiscal Year Ending	G.O., Series 2004			G.O. and Refunding, Series 2003A		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 275,000	\$ 191,625	\$ 466,625	\$ 585,000	\$ 218,875	\$ 803,875
2006	275,000	184,750	459,750	610,000	206,925	816,925
2007	275,000	177,875	452,875	640,000	194,425	834,425
2008	275,000	171,000	446,000	635,000	180,881	815,881
2009	275,000	163,437	438,437	660,000	165,488	825,488
2010	275,000	155,187	430,187	675,000	147,113	822,113
2011	275,000	145,563	420,563	710,000	126,338	836,338
2012	270,000	134,663	404,663	835,000	102,119	937,119
2013	270,000	123,862	393,862	520,000	80,100	600,100
2014	270,000	113,737	383,737	510,000	63,363	573,363
2015	270,000	104,153	374,153	500,000	46,325	546,325
2016	270,000	94,298	364,298	490,000	28,388	518,388
2017	270,000	84,172	354,172	480,000	9,600	489,600
2018	270,000	73,778	343,778			
2019	270,000	63,113	333,113			
2020	270,000	52,177	322,177			
2021	270,000	40,972	310,972			
2022	270,000	29,498	299,498			
2023	270,000	17,786	287,786			
2024	270,000	5,940	275,940			
2025						
2026						
	<u>\$ 5,435,000</u>	<u>\$ 2,127,586</u>	<u>\$ 7,562,586</u>	<u>\$ 7,850,000</u>	<u>\$ 1,569,940</u>	<u>\$ 9,419,940</u>

Fiscal Year Ending	G.O. and Refunding, Series 2003			Comb. Tax and Revenue C.O., Series 2003		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 2,420,000	\$ 532,580	\$ 2,952,580	\$ 800,000	\$ 554,555	\$ 1,354,555
2006	2,750,000	436,880	3,186,880	830,000	526,845	1,356,845
2007	2,085,000	369,568	2,454,568	865,000	498,030	1,363,030
2008	1,890,000	315,155	2,205,155	900,000	468,025	1,368,025
2009	1,645,000	249,793	1,894,793	935,000	436,830	1,371,830
2010	1,220,000	192,040	1,412,040	975,000	404,360	1,379,360
2011	1,170,000	142,050	1,312,050	1,015,000	369,515	1,384,515
2012	1,210,000	88,600	1,298,600	1,060,000	331,370	1,391,370
2013	530,000	53,800	583,800	1,105,000	289,395	1,394,395
2014	485,000	32,288	517,288	1,155,000	244,195	1,399,195
2015	475,000	10,688	485,688	1,210,000	196,290	1,406,290
2016				1,265,000	144,920	1,409,920
2017				1,325,000	89,868	1,414,868
2018				1,395,000	30,690	1,425,690
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
	\$ 15,880,000	\$ 2,423,442	\$ 18,303,442	\$ 14,835,000	\$ 4,584,888	\$ 19,419,888

Fiscal Year Ending	Comb. Tax and HOT Revenue C.O., Series 2002			G.O. and Refunding, Series 2001		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 245,000	\$ 485,676	\$ 730,676	\$ 735,000	\$ 462,045	\$ 1,197,045
2006	260,000	471,158	731,158	590,000	435,545	1,025,545
2007	275,000	455,776	730,776	450,000	414,745	864,745
2008	290,000	441,708	731,708	465,000	396,096	861,096
2009	305,000	426,776	731,776	485,000	376,020	861,020
2010	320,000	409,608	729,608	1,100,000	340,843	1,440,843
2011	335,000	392,414	727,414	1,120,000	290,893	1,410,893
2012	355,000	376,165	731,165	1,150,000	236,943	1,386,943
2013	375,000	360,460	735,460	800,000	189,193	989,193
2014	395,000	343,323	738,323	365,000	161,296	526,296
2015	415,000	324,890	739,890	380,000	142,899	522,899
2016	435,000	305,123	740,123	375,000	123,836	498,836
2017	460,000	283,860	743,860	395,000	104,152	499,152
2018	485,000	260,938	745,938	415,000	83,240	498,240
2019	510,000	236,305	746,305	435,000	61,031	496,031
2020	535,000	210,180	745,180	460,000	37,538	497,538
2021	565,000	182,680	747,680	485,000	12,731	497,731
2022	595,000	153,383	748,383			
2023	625,000	122,273	747,273			
2024	660,000	89,505	749,505			
2025	695,000	54,953	749,953			
2026	730,000	18,615	748,615			
	\$ 9,865,000	\$ 6,405,769	\$ 16,270,769	\$ 10,205,000	\$ 3,869,046	\$ 14,074,046

City of Sugar Land, Texas
COMBINING SCHEDULE OF GENERAL LONG-TERM DEBT
BY MATURITY DATE
Year Ended September 30, 2004

Fiscal Year Ending	G.O. and Refunding, Series 1999			G.O. and Refunding, Series 1998		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 480,000	\$ 297,844	\$ 777,844	\$ 1,150,000	\$ 757,886	\$ 1,907,886
2006	330,000	273,544	603,544	1,220,000	706,034	1,926,034
2007	330,000	255,394	585,394	1,355,000	641,931	1,996,931
2008	330,000	239,554	569,554	1,445,000	564,931	2,009,931
2009	330,000	224,209	554,209	1,535,000	489,697	2,024,697
2010	330,000	208,534	538,534	1,625,000	415,606	2,040,606
2011	330,000	192,529	522,529	1,350,000	344,950	1,694,950
2012	330,000	176,192	506,192	1,435,000	278,807	1,713,807
2013	325,000	159,819	484,819	1,515,000	206,851	1,721,851
2014	325,000	143,569	468,569	1,290,000	136,725	1,426,725
2015	325,000	127,156	452,156	660,000	87,150	747,150
2016	325,000	110,541	435,541	420,000	58,800	478,800
2017	325,000	93,763	418,763	445,000	36,093	481,093
2018	325,000	76,781	401,781	465,000	12,206	477,206
2019	325,000	59,719	384,719			
2020	325,000	42,656	367,656			
2021	325,000	25,594	350,594			
2022	325,000	8,531	333,531			
2023						
2024						
2025						
2026						
	<u>\$ 6,040,000</u>	<u>\$ 2,715,926</u>	<u>\$ 8,755,926</u>	<u>\$ 15,910,000</u>	<u>\$ 4,737,667</u>	<u>\$ 20,647,667</u>

Fiscal Year Ending	G.O. and Refunding, Series 1996A			G.O., Series 1996		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 1,341,758	\$ 909,162	\$ 2,250,920	\$ 530,000	\$ 178,411	\$ 708,411
2006	1,277,230	953,765	2,230,995	530,000	151,249	681,249
2007	1,200,000	298,995	1,498,995	530,000	124,086	654,086
2008	1,040,000	237,455	1,277,455	530,000	96,858	626,858
2009	495,000	197,298	692,298	530,000	69,563	599,563
2010	510,000	170,410	680,410	530,000	42,003	572,003
2011	520,000	142,340	662,340	530,000	14,045	544,045
2012	480,000	114,840	594,840			
2013	490,000	87,920	577,920			
2014	510,000	59,920	569,920			
2015	520,000	31,080	551,080			
2016	295,000	8,260	303,260			
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
	<u>\$ 8,678,988</u>	<u>\$ 3,211,445</u>	<u>\$ 11,890,433</u>	<u>\$ 3,710,000</u>	<u>\$ 676,215</u>	<u>\$ 4,386,215</u>

Fiscal Year Ending	G.O. and Refunding, Series 1995			G.O., Series 1994		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 1,135,000	\$ 327,541	\$ 1,462,541	\$ 350,000	\$ 9,625	\$ 359,625
2006	1,135,000	268,238	1,403,238			
2007	765,000	217,505	982,505			
2008	790,000	175,125	965,125			
2009	735,000	132,820	867,820			
2010	520,000	97,290	617,290			
2011	545,000	66,535	611,535			
2012	570,000	33,915	603,915			
2013	90,000	14,400	104,400			
2014	95,000	8,850	103,850			
2015	100,000	3,000	103,000			
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
	<u>\$ 6,480,000</u>	<u>\$ 1,345,219</u>	<u>\$ 7,825,219</u>	<u>\$ 350,000</u>	<u>\$ 9,625</u>	<u>\$ 359,625</u>
Fiscal Year Ending	FC MUD No 2, Series 1996			FC MUD No 2, Series 1997		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 10,000	\$ 260,030	\$ 270,030	\$ 120,000	\$ 133,440	\$ 253,440
2006	5,000	265,030	270,030	130,000	127,315	257,315
2007	235,000	45,030	280,030	140,000	120,700	260,700
2008	250,000	31,165	281,165	150,000	113,595	263,595
2009	265,000	16,165	281,165	160,000	106,000	266,000
2010				170,000	97,915	267,915
2011				225,000	88,125	313,125
2012				225,000	76,875	301,875
2013				225,000	65,625	290,625
2014				225,000	54,375	279,375
2015				225,000	43,125	268,125
2016				250,000	31,250	281,250
2017				250,000	18,750	268,750
2018				250,000	6,250	256,250
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
	<u>\$ 765,000</u>	<u>\$ 617,420</u>	<u>\$ 1,382,420</u>	<u>\$ 2,745,000</u>	<u>\$ 1,083,340</u>	<u>\$ 3,828,340</u>

City of Sugar Land, Texas
COMBINING SCHEDULE OF GENERAL LONG-TERM DEBT
BY MATURITY DATE
Year Ended September 30, 2004

Fiscal Year Ending	FC MUD No 2, Series 1997A			FC MUD No 4, Series 1996		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 75,000	\$ 91,781	\$ 166,781	\$ 125,000	\$ 266,442	\$ 391,442
2006	75,000	88,031	163,031	95,000	208,127	303,127
2007	80,000	84,156	164,156	190,000	119,748	309,748
2008	85,000	80,031	165,031	200,000	109,962	309,962
2009	90,000	75,656	165,656	220,000	99,462	319,462
2010	95,000	71,031	166,031	240,000	87,692	327,692
2011	105,000	66,031	171,031	255,000	74,612	329,612
2012	110,000	60,656	170,656	275,000	60,588	335,588
2013	115,000	55,031	170,031	475,000	45,188	520,188
2014	120,000	49,156	169,156	315,000	18,112	333,112
2015	130,000	42,906	172,906			
2016	140,000	36,156	176,156			
2017	145,000	29,031	174,031			
2018	155,000	21,531	176,531			
2019	165,000	13,531	178,531			
2020	175,000	4,703	179,703			
2021						
2022						
2023						
2024						
2025						
2026						
	<u>\$ 1,860,000</u>	<u>\$ 869,418</u>	<u>\$ 2,729,418</u>	<u>\$ 2,390,000</u>	<u>\$ 1,089,933</u>	<u>\$ 3,479,933</u>

Fiscal Year Ending	FC MUD No 8, Series 1995			FC MUD No 8, Series 1993A		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 10,000	\$ 239,057	\$ 249,057	\$ 120,000	\$ 14,027	\$ 134,027
2006	130,000	129,057	259,057	125,000	7,187	132,187
2007	135,000	121,907	256,907			
2008	145,000	114,348	259,348			
2009	155,000	106,082	261,082			
2010	160,000	97,170	257,170			
2011	340,000	87,890	427,890			
2012	360,000	68,170	428,170			
2013	385,000	47,110	432,110			
2014	410,000	24,395	434,395			
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
	<u>\$ 2,230,000</u>	<u>\$ 1,035,186</u>	<u>\$ 3,265,186</u>	<u>\$ 245,000</u>	<u>\$ 21,214</u>	<u>\$ 266,214</u>

Fiscal Year Ending	FC MUD No 27, Series 1996			Obligations Under Capital Leases		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 100,000	\$ 73,250	\$ 173,250	\$ 559,732	\$ 62,810	\$ 622,542
2006	200,000	65,250	265,250	362,209	36,546	398,755
2007	200,000	55,450	255,450	148,906	26,061	174,967
2008	200,000	45,500	245,500	154,073	20,895	174,968
2009	200,000	35,500	235,500	159,420	15,548	174,968
2010	200,000	25,500	225,500	134,758	10,011	144,769
2011	200,000	15,500	215,500	78,144	5,897	84,041
2012	210,000	5,250	215,250	49,974	3,538	53,512
2013				51,967	1,545	53,512
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
2026						
	<u>\$ 1,510,000</u>	<u>\$ 321,200</u>	<u>\$ 1,831,200</u>	<u>\$ 1,699,183</u>	<u>\$ 182,851</u>	<u>\$ 1,882,034</u>

City of Sugar Land, Texas

COMBINING SCHEDULE OF ENTERPRISE FUND LONG-TERM DEBT

BY MATURITY DATE

Year Ended September 30, 2004

Fiscal Year Ending	Total Requirements - All Series			City Utility System - Waterworks and Sewer Revenue Bonds Series 2002A		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 1,555,000	\$ 874,406	\$ 2,429,406	\$ 50,000	\$ 60,549	\$ 110,549
2006	1,555,000	804,115	2,359,115	50,000	57,799	107,799
2007	1,310,000	740,433	2,050,433	55,000	55,049	110,049
2008	1,315,000	682,996	1,997,996	55,000	52,024	107,024
2009	1,325,000	624,870	1,949,870	60,000	49,824	109,824
2010	1,330,000	564,118	1,894,118	60,000	47,424	107,424
2011	1,340,000	503,736	1,843,736	65,000	45,024	110,024
2012	1,345,000	443,192	1,788,192	65,000	42,424	107,424
2013	1,365,000	381,913	1,746,913	70,000	39,824	109,824
2014	1,375,000	323,526	1,698,526	75,000	37,024	112,024
2015	1,380,000	264,376	1,644,376	75,000	34,024	109,024
2016	1,045,000	204,199	1,249,199	80,000	30,874	110,874
2017	1,065,000	160,881	1,225,881	85,000	27,434	112,434
2018	1,075,000	116,537	1,191,537	90,000	23,694	113,694
2019	375,000	71,006	446,006	95,000	19,644	114,644
2020	395,000	55,591	450,591	100,000	15,250	115,250
2021	405,000	38,663	443,663	100,000	10,250	110,250
2022	425,000	21,056	446,056	105,000	5,250	110,250
2023	110,000	2,475	112,475			
	<u>\$ 20,090,000</u>	<u>\$ 6,878,089</u>	<u>\$ 26,968,089</u>	<u>\$ 1,335,000</u>	<u>\$ 653,385</u>	<u>\$ 1,988,385</u>

Fiscal Year Ending	City Utility System - Waterworks and Sewer Revenue Bonds Series 2002			City Utility System - Waterworks and Sewer Revenue Refunding Series 1999		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 130,000	\$ 91,263	\$ 221,263	\$ 605,000	\$ 279,860	\$ 884,860
2006	135,000	89,508	224,508	605,000	252,332	857,332
2007	135,000	87,213	222,213	600,000	224,200	824,200
2008	135,000	84,513	219,513	585,000	195,700	780,700
2009	140,000	81,408	221,408	575,000	167,327	742,327
2010	145,000	77,838	222,838	555,000	137,859	692,859
2011	150,000	73,850	223,850	535,000	110,663	645,663
2012	150,000	69,575	219,575	555,000	83,913	638,913
2013	155,000	65,150	220,150	360,000	55,470	415,470
2014	160,000	60,423	220,423	350,000	36,750	386,750
2015	165,000	55,303	220,303	350,000	18,375	368,375
2016	170,000	49,858	219,858			
2017	180,000	44,078	224,078			
2018	185,000	37,778	222,778			
2019	190,000	31,118	221,118			
2020	200,000	24,088	224,088			
2021	205,000	16,488	221,488			
2022	215,000	8,493	223,493			
2023						
	<u>\$ 2,945,000</u>	<u>\$ 1,047,945</u>	<u>\$ 3,992,945</u>	<u>\$ 5,675,000</u>	<u>\$ 1,562,449</u>	<u>\$ 7,237,449</u>

Fiscal Year Ending	City Utility System - Regional Waste Disposal Contract Revenue Bonds Series 1997			City Utility System - Waterworks and Sewer Revenue Bonds Series 1997		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 50,000	\$ 129,015	\$ 179,015	\$ 150,000	\$ 120,000	\$ 270,000
2006	50,000	127,190	177,190	150,000	114,525	264,525
2007	50,000	125,340	175,340	150,000	108,975	258,975
2008	50,000	123,465	173,465	160,000	103,350	263,350
2009	50,000	121,540	171,540	160,000	97,190	257,190
2010	50,000	119,566	169,566	160,000	90,870	250,870
2011	50,000	117,565	167,565	190,000	84,470	274,470
2012	50,000	115,540	165,540	190,000	76,775	266,775
2013	440,000	113,490	553,490	270,000	68,985	338,985
2014	445,000	95,230	540,230	270,000	57,780	327,780
2015	445,000	76,540	521,540	270,000	46,440	316,440
2016	445,000	57,627	502,627	270,000	34,965	304,965
2017	445,000	38,492	483,492	270,000	23,355	293,355
2018	445,000	19,357	464,357	270,000	11,745	281,745
2019						
2020						
2021						
2022						
2023						
	<u>\$ 3,065,000</u>	<u>\$ 1,379,957</u>	<u>\$ 4,444,957</u>	<u>\$ 2,930,000</u>	<u>\$ 1,039,425</u>	<u>\$ 3,969,425</u>

Fiscal Year Ending	City Utility System - Waterworks and Sewer Revenue Refunding Bonds Series 1997			Airport - Combination Tax and Revenue Certificates of Obligation, Series 2003A		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 270,000	\$ 107,370	\$ 377,370	\$ 50,000	\$ 62,661	\$ 112,661
2006	265,000	94,950	359,950	50,000	59,911	109,911
2007	270,000	82,495	352,495	50,000	57,161	107,161
2008	275,000	69,670	344,670	55,000	54,274	109,274
2009	280,000	56,470	336,470	60,000	51,111	111,111
2010	300,000	42,750	342,750	60,000	47,811	107,811
2011	285,000	27,750	312,750	65,000	44,414	109,414
2012	270,000	13,500	283,500	65,000	41,465	106,465
2013				70,000	38,994	108,994
2014				75,000	36,319	111,319
2015				75,000	33,694	108,694
2016				80,000	30,875	110,875
2017				85,000	27,522	112,522
2018				85,000	23,963	108,963
2019				90,000	20,244	110,244
2020				95,000	16,253	111,253
2021				100,000	11,925	111,925
2022				105,000	7,313	112,313
2023				110,000	2,475	112,475
	<u>\$ 2,215,000</u>	<u>\$ 494,955</u>	<u>\$ 2,709,955</u>	<u>\$ 1,425,000</u>	<u>\$ 668,385</u>	<u>\$ 2,093,385</u>

City of Sugar Land, Texas
COMBINING SCHEDULE OF ENTERPRISE FUND LONG-TERM DEBT
BY MATURITY DATE
Year Ended September 30, 2004

Fiscal Year Ending	Airport - Combination Tax and Revenue Certificates of Obligation, Series 1998			G.O. Airport Refunding, Series 1991		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 50,000	\$ 3,438	\$ 53,438	\$ 200,000	\$ 20,250	\$ 220,250
2006	50,000	1,150	51,150	200,000	6,750	206,750
2007						
2008						
2009						
2010						
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
	<u>\$ 100,000</u>	<u>\$ 4,588</u>	<u>\$ 104,588</u>	<u>\$ 400,000</u>	<u>\$ 27,000</u>	<u>\$ 427,000</u>

STATISTICAL SECTION

Table 1

City of Sugar Land, Texas
GOVERNMENT-WIDE EXPENSES BY FUNCTION
Last Ten Fiscal Years (1)

Function	2002	2003	2004
General government	\$ 11,847,647	\$ 3,565,235	\$ 4,556,424
Administrative services	4,047,094	4,938,322	6,117,246
Public works	13,428,308	17,359,381	14,564,970
Parks and recreation	2,088,616	3,348,919	2,837,255
Community development	1,865,965	2,157,745	2,248,632
Public safety-police	8,992,413	9,764,347	9,777,071
Public safety-fire	6,076,324	6,613,822	7,461,306
Interest on long-term debt	4,740,455	6,247,290	5,637,729
Water and sewer	13,065,853	13,084,344	15,079,772
Solid waste management	2,363,912	2,401,184	2,667,768
Airport	4,038,808	4,494,931	5,599,018
Sugar Land Development Corp.	2,103,201	2,477,734	2,702,188
Sugar Land 4B Corporation	4,417,165	2,235,365	4,016,645
Sugar Land Town Square TIRZ		1,491	155,121
Sugar Land Town Square Development Authority	2,969,268	13,183	548,910
Total Government-wide Expenses	\$ 82,045,029	\$ 78,703,293	\$ 83,970,055

This schedule includes governmental activities, business-type activities and component units expenses.

(1) - GASB Statement No. 34 was implemented during the year ended September 30, 2002. Accordingly, no government-wide data is available for fiscal years 2001 and prior.

Table 2

City of Sugar Land, Texas
GOVERNMENT-WIDE REVENUES
Last Ten Fiscal Years (1)

Function	2002	2003	2004
Program Revenues:			
Charges for services	\$ 24,676,122	\$ 26,848,896	\$ 30,452,234
Operating grants and contributions	483,227	709,289	517,740
Capital grants and contributions	21,955,266	6,783,212	11,355,349
Total Program Revenues	<u>47,114,615</u>	<u>34,341,397</u>	<u>42,325,323</u>
General Revenues:			
Taxes:			
Property taxes	17,477,393	17,863,419	18,878,867
Sales taxes	24,221,248	27,620,838	29,077,079
Sales taxes-hotel and mixed drink	389,541	372,023	843,929
Franchise fees	4,062,920	3,971,709	3,927,334
Investment earnings	1,962,648	1,199,283	841,514
Miscellaneous and gain on disposal of capital assets	212,471	72,586	99,353
Total General Revenues	<u>48,326,221</u>	<u>51,099,858</u>	<u>53,668,076</u>
Total Government-Wide Revenues	<u><u>\$ 95,440,836</u></u>	<u><u>\$ 85,441,255</u></u>	<u><u>\$ 95,993,399</u></u>

This schedule includes governmental activities, business-type activities and component units revenues.

(1) - GASB Statement No. 34 was implemented during the year ended September 30, 2002. Accordingly, no government-wide data is available for fiscal years 2001 and prior.

City of Sugar Land, Texas

GENERAL GOVERNMENT EXPENDITURES BY FUNCTION

Last Ten Fiscal Years

Function	1995	1996	1997	1998
General government	\$ 4,311,499	\$ 4,867,326	\$ 5,630,698	\$ 5,240,367
Public works	1,967,232	1,987,512	2,167,362	2,833,811
Parks and recreation	440,411	801,390	1,021,169	1,101,283
Community development	894,128	1,058,625	1,374,070	1,773,802
Public safety	<u>6,730,121</u>	<u>8,657,323</u>	<u>9,836,832</u>	<u>10,481,957</u>
Total Expenditures before Capital Outlay and Debt Service	14,343,391	17,372,176	20,030,131	21,431,220
Capital outlay	6,332,323	5,671,977	10,622,604	9,953,014
Debt service	<u>6,430,530</u>	<u>7,178,607</u>	<u>9,458,908</u>	<u>13,759,809</u>
Total	<u><u>\$ 27,106,244</u></u>	<u><u>\$ 30,222,760</u></u>	<u><u>\$ 40,111,643</u></u>	<u><u>\$ 45,144,043</u></u>
Estimated Population	<u><u>37,583</u></u>	<u><u>45,631</u></u>	<u><u>46,158</u></u>	<u><u>59,448</u></u>
Expenditures per Capita	<u><u>\$ 721</u></u>	<u><u>\$ 662</u></u>	<u><u>\$ 869</u></u>	<u><u>\$ 759</u></u>
Expenditures per Capita before Capital Outlay and Debt Service	<u><u>\$ 382</u></u>	<u><u>\$ 381</u></u>	<u><u>\$ 434</u></u>	<u><u>\$ 361</u></u>

This schedule includes expenditures of the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Component Units.

Table 3

1999	2000	2001	2002	2003	2004
\$ 5,851,551	\$ 7,481,066	\$ 12,952,228	\$ 9,801,786	\$ 10,781,551	\$ 11,853,254
3,433,623	3,559,431	4,302,653	5,391,219	5,490,831	5,796,088
1,335,514	1,559,533	1,648,212	1,798,629	1,958,525	1,968,563
2,196,900	2,331,706	2,265,153	2,153,109	2,140,039	2,244,372
<u>11,511,232</u>	<u>12,008,503</u>	<u>13,886,642</u>	<u>16,025,126</u>	<u>16,503,877</u>	<u>16,504,535</u>
24,328,820	26,940,239	35,054,888	35,169,869	36,874,823	38,366,812
12,876,485	7,324,289	12,442,523	19,554,101	23,755,738	25,960,790
<u>15,291,466</u>	<u>15,501,005</u>	<u>15,825,974</u>	<u>18,219,470</u>	<u>19,139,464</u>	<u>19,786,747</u>
<u>\$ 52,496,771</u>	<u>\$ 49,765,533</u>	<u>\$ 63,323,385</u>	<u>\$ 72,943,440</u>	<u>\$ 79,770,025</u>	<u>\$ 84,114,349</u>
<u>61,587</u>	<u>62,637</u>	<u>63,328</u>	<u>65,255</u>	<u>66,129</u>	<u>69,129</u>
<u>\$ 852</u>	<u>\$ 795</u>	<u>\$ 1,000</u>	<u>\$ 1,118</u>	<u>\$ 1,206</u>	<u>\$ 1,217</u>
<u>\$ 395</u>	<u>\$ 430</u>	<u>\$ 554</u>	<u>\$ 539</u>	<u>\$ 558</u>	<u>\$ 555</u>

City of Sugar Land, Texas

GENERAL GOVERNMENT REVENUES BY SOURCE

Last Ten Fiscal Years

Function	1995	1996	1997	1998
Taxes:				
General Property (1)	\$ 9,538,518	\$ 10,668,500	\$ 10,021,237	\$ 14,775,589
Sales	5,978,472	8,611,514	10,659,571	13,359,632
Sales (Economic Development)	1,175,830	2,734,352	3,553,190	4,453,210
Hotel Occupancy		63,250	113,157	260,708
Franchise	1,856,112	2,087,714	2,375,497	2,778,862
Total Taxes	18,548,932	24,165,330	26,722,652	35,628,001
Other Revenues:				
Licenses and permits	563,671	512,351	750,811	998,769
Fines and forfeitures	210,075	303,006	454,208	562,565
Charges for services	1,753,044	1,878,409	1,979,521	585,763
Interest on investments	1,144,141	1,261,737	1,397,117	1,837,432
Intergovernmental	28,443	32,819	190,630	161,717
Other revenue	437,815	564,304	1,274,815	927,444
Dissolution of M.U.D.s		1,397,417		6,440,736
Total Other Revenues	4,137,189	5,950,043	6,047,102	11,514,426
Total	\$ 22,686,121	\$ 30,115,373	\$ 32,769,754	\$ 47,142,427
Estimated Population	37,583	45,631	46,158	59,448
Sales Tax Revenue per Capita	\$ 190	\$ 249	\$ 308	\$ 300

This schedule includes revenues of the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Component Units.

(1) Includes penalty and interest.

(2) Solid Waste moved to Enterprise Fund in 1998.

Table 4

	1999	2000	2001	2002	2003	2004
	\$ 14,794,533	\$ 16,036,464	\$ 16,679,184	\$ 17,439,251	\$ 17,862,997	\$ 18,926,477
	14,761,929	16,178,091	17,956,143	18,478,376	19,876,630	22,124,554
	4,920,642	5,392,697	5,985,382	6,159,458	6,625,544	7,331,174
	268,057	267,936	293,411	291,106	264,589	598,574
	3,463,944	3,654,506	4,220,762	4,277,940	3,920,930	3,966,827
	38,209,105	41,529,694	45,134,882	46,646,131	48,550,690	52,947,606
	985,509	963,621	889,427	993,957	1,110,548	1,086,479
	711,461	762,950	1,022,056	1,255,397	1,539,826	1,377,622
(2)	543,877	617,151	711,089	811,171	1,081,942	2,346,494
	1,765,771	2,367,669	2,346,376	1,463,058	907,896	665,311
	599,086	50,510	102,288	6,238,392	2,015,197	5,750,796
	3,183,393	1,069,789	2,061,431	2,331,927	1,706,515	264,539
	882,243					
	8,671,340	5,831,690	7,132,667	13,093,902	8,361,924	11,491,241
	\$ 46,880,445	\$ 47,361,384	\$ 52,267,549	\$ 59,740,033	\$ 56,912,614	\$ 64,438,847
	61,587	62,637	63,328	65,255	66,129	69,129
	\$ 320	\$ 344	\$ 378	\$ 378	\$ 401	\$ 426

City of Sugar Land, Texas

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

Fiscal Year	Tax Year	Tax Rate (A)	Total Tax Levy	Current Tax Collections	Percent of Levy Collected
1995	1994	0.45700	\$ 9,511,945	\$ 9,456,867	99.4
1996	1995	0.39830	10,622,852 (C)	10,483,905	98.7
1997	1996	0.36830	10,060,743	9,935,287	98.8
1998	1997	0.35830	14,836,279 (D)	14,607,807	98.5
1999	1998	0.35830	14,765,053	14,676,823	99.4
2000	1999	0.35830	15,961,793	15,857,300	99.3
2001	2000	0.34830	16,637,042	16,506,573	99.2
2002	2001	0.33330	17,240,756	17,097,945	99.2
2003	2002	0.32886	17,756,134	17,611,167	99.2
2004	2003	0.32840	18,657,218	18,509,816	99.2

(A) The basis for property tax rates is per \$100 of assessed valuation.

(B) Outstanding delinquent taxes includes authorized adjustments.

(C) Includes outstanding tax levy of annexed First Colony Municipal Utility District No.'s 1, 6, and 7 at November 30, 1995, date of annexation.

(D) Includes outstanding tax levy of annexed First Colony Municipal Utility District No. 's 2, 3, 4, 5, and 8 at November 30, 1997, date of annexation.

Source - Tax department records of the City.

Table 5

Delinquent Tax Collections	Total Tax Collections	Total Collections as Percent of Current Levy	Outstanding Delinquent Taxes (B)	Outstanding Delinquent Taxes as Percent of Levy
\$ 43,390	\$ 9,500,257	99.9	\$ 182,517	1.92
33,400	10,517,305	99.0	198,018	1.86
47,773	9,983,060	99.2	193,957	1.93
98,038	14,705,845	99.1	233,519	1.57
48,594	14,725,417	99.7	271,587	1.84
59,036	15,916,336	99.7	309,648	1.94
68,786	16,575,359	99.6	370,199	2.23
106,025	17,203,970	99.8	408,340	2.37
143,650	17,754,817	100.0	408,764	2.30
144,100	18,653,916	100.0	361,153	1.94

City of Sugar Land, Texas

TAX RATE DISTRIBUTION

Last Ten Fiscal Years

Fiscal Year	Tax Year	General Fund	Debt Service Fund	Capital Projects Fund	Total Tax Rate
1995	1994	\$ 0.19121	\$ 0.21719	\$ 0.04860	\$ 0.45700
1996	1995	0.12110	0.21720	0.06000	0.39830
1997	1996	0.13830	0.23000		0.36830
1998	1997	0.12830	0.23000		0.35830
1999	1998	0.10330	0.25500		0.35830
2000	1999	0.10330	0.25500		0.35830
2001	2000	0.09330	0.25500		0.34830
2002	2001	0.09330	0.24000		0.33330
2003	2002	0.10407	0.22479		0.32886
2004	2003	0.11588	0.21252		0.32840

The basis for the tax rates is per \$100 of assessed valuation.

Source - City's tax ordinances.

Table 7

City of Sugar Land, Texas
ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year	Tax Year	Real Property	Personal Property	Total	Ratio of Assessed Value to Estimated Actual Value
1995	1994	\$ 1,761,991,524	\$ 360,892,957	\$ 2,122,884,481	100.0
1996	1995	1,800,979,736	419,303,644	2,220,283,380	100.0
1997	1996	2,211,781,458	519,889,209	2,731,670,667	100.0
1998	1997 (1)	3,330,231,627	613,689,019	3,943,920,646	100.0
1999	1998	3,499,138,542	621,724,621	4,120,863,163	100.0
2000	1999	3,758,883,907	695,985,292	4,454,869,199	100.0
2001	2000	4,014,729,556	761,911,845	4,776,641,401	100.0
2002	2001	4,333,658,540	839,085,660	5,172,744,200	100.0
2003	2002	4,546,891,571	852,407,596	5,399,299,167	100.0
2004	2003	4,803,703,257	879,471,165	5,683,174,422	100.0

(1) Includes First Colony Municipal Utility Districts No. 2, 3, 4, 5, and 8 annexed November 30, 1997.
Source - Tax assessor/collector's records

City of Sugar Land, Texas

PROPERTY TAX RATES AND TAX LEVIES - DIRECT AND OVERLAPPING GOVERNMENTS

Last Ten Fiscal Years

Fiscal Year Tax Year	1995 1994	1996 1995	1997 1996	1998 1997
<u>Tax Levies</u>				
City of Sugar Land	\$ 9,511,945	\$ 10,622,852 (B)	\$ 10,060,743	\$ 14,836,279 (C)
Fort Bend County	67,442,720	68,597,496	71,763,168	76,103,726
Fort Bend ISD	104,032,563	112,108,008	118,457,460	126,784,591
Fort Bend LID 2	4,414,397	4,680,971	4,741,869	4,760,928
First Colony MUD No. 7	200,238			
Fort Bend County MUD No. 21	870,684	894,927	973,508	1,047,885
First Colony LID	1,775,716	1,677,528	1,784,851	1,931,460
Fort Bend County MUD No. 27	346,044	358,138	418,883	255,850
Eldridge Road MUD	1,113,724	1,013,712	991,264	990,572
Fort Bend WCID No. 2				
First Colony LID No. 2				
Burney Road MUD				
<u>Tax Rates (A)</u>				
City of Sugar Land	\$ 0.4570	\$ 0.3983	\$ 0.3683	\$ 0.3583
Fort Bend County	0.6570	0.6470	0.6441	0.6259
Fort Bend ISD	1.5850	1.5850	1.6150	1.6435
Fort Bend LID 2	0.3260	0.3233	0.3000	0.2688
First Colony MUD No. 7	0.9800			
Fort Bend County MUD No. 21	0.4800	0.5100	0.5800	0.5800
First Colony LID	0.4500	0.3800	0.3800	0.3800
Fort Bend County MUD No. 27	0.3950	0.3750	0.3610	0.2000
Eldridge Road MUD	1.2500	1.1300	1.1140	1.1100
Fort Bend WCID No. 2				
First Colony LID No. 2				
Burney Road MUD				

(A) The basis for tax rates is per \$100 of assessed valuation.

(B) Includes outstanding tax levy of First Colony MUD No.'s 1, 6, and 7 at November 30, 1995, date of dissolution.

(C) Includes outstanding tax levy of First Colony MUD No.'s 2, 3, 4, 5 and 8 at November 30, 1997, date of dissolution.

Source - Tax Department records of the various taxing authorities and Fort Bend Central Appraisal District.

Table 8

	1999 1998	2000 1999	2001 2000	2002 2001	2003 2002	2004 2003
\$	14,765,053	\$ 15,961,793	\$ 16,637,042	\$ 17,240,756	\$ 17,756,134	\$ 18,657,218
	79,993,158	87,498,904	94,984,380	99,771,508	103,415,809	110,192,765
	136,664,432	147,786,959	178,265,236	198,812,342	212,880,487	225,533,073
	4,785,819	4,804,337	5,185,426	5,573,587	5,780,651	5,526,118
	1,231,161	1,284,474	1,299,525	1,324,655	1,344,113	1,379,544
	1,409,224	1,501,418	1,555,900	1,557,621	1,613,390	1,659,654
	970,018	970,530	1,039,434	1,136,660	1,172,875	1,265,056
	2,151,752	2,290,561	2,485,946	2,629,428	2,759,094	2,805,095
	935,278	936,312	964,704	1,018,477	1,172,198	1,223,956
		40,128	148,037	290,354	449,154	668,413
\$	0.3583	\$ 0.3583	\$ 0.3483	\$ 0.3333	\$ 0.3289	\$ 0.3284
	0.6241	0.6241	0.6041	0.5641	0.5387	0.5237
	1.6773	1.6570	1.6925	1.6825	1.6825	1.6700
	0.2490	0.2317	0.2300	0.2300	0.2300	0.2100
	0.5700	0.5400	0.4900	0.4900	0.4900	0.4900
	0.2600	0.2500	0.2350	0.2150	0.2050	0.1950
	1.0600	0.9700	0.8300	0.7200	0.6700	0.6000
	0.1670	0.1670	0.1629	0.1629	0.1629	0.1629
	0.3587	0.3587	0.3420	0.3420	0.3920	0.3920
		0.7850	0.7500	0.7500	0.7400	0.7400

City of Sugar Land, Texas
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years

Fiscal Year	Tax Year	Estimated Population	Assessed Value (A)	Gross Bonded Debt (B)
1995	1994	37,583	\$ 2,122,884,481	\$ 46,217,655
1996	1995	45,631	2,220,283,380	70,482,564 (C)
1997	1996	46,158	2,731,670,667	72,746,840 (C)
1998	1997	59,448	3,943,920,646	125,966,960 (C)
1999	1998	61,587	4,120,863,163	127,399,628 (C)
2000	1999	62,637	4,454,869,199	118,690,784 (C)
2001	2000	63,328	4,776,641,401	116,330,452 (C)
2002	2001	65,255	5,172,744,200	107,469,933 (C)
2003	2002	66,129	5,399,299,167	124,162,577 (C)
2004	2003	69,129	5,683,174,422	118,713,759 (C)

(A) Assessed value is net of exemptions.

(B) Gross bonded debt includes general obligation bonds, certificates of obligation and annexed/dissolved utility district obligations.

(C) Gross bonded debt includes accreted interest on capital appreciation bonds.

Table 9

Less Debt Service Funds		Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
<hr/>		<hr/>	<hr/>	<hr/>
\$	3,747,788	\$ 42,469,867	2.00	\$ 1,130
	6,618,986	63,863,578	2.88	1,400
	5,605,199	67,141,641	2.46	1,455
	11,329,579	114,637,381	2.91	1,928
	9,492,114	117,907,514	2.86	1,914
	7,932,792	110,757,992	2.49	1,768
	7,449,227	108,881,225	2.28	1,719
	7,355,602	100,114,331	1.94	1,534
	7,325,562	116,837,015	2.16	1,767
	6,653,939	112,059,820	1.97	1,621

Table 10

City of Sugar Land, Texas
COMPUTATION OF NET DIRECT AND ESTIMATED
OVERLAPPING DEBT
September 30, 2004

<u>Name of Governmental Unit</u>	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percentage Applicable to City of Sugar Land</u>	<u>City of Sugar Land Share of Debt</u>
Fort Bend County	\$ 163,915,000	28.09 %	\$ 46,043,724
Fort Bend ISD	616,792,684	42.00	259,052,927
Burney Road MUD	10,900,000	100.00	10,900,000
Fort Bend County MUD 21	16,175,000	100.00	16,175,000
Eldridge Road MUD	9,245,000	100.00	9,245,000
Fort Bend County LID 2	8,805,000	100.00	8,805,000
Fort Bend County WCID 2	28,745,000	1.73	497,289
First Colony LID	3,795,000	5.88	223,146
First Colony LID 2	5,820,000	19.78	<u>1,151,196</u>
Total Net Overlapping Debt			352,093,281
City of Sugar Land	118,713,759	100.00	<u>118,713,759</u>
Total Net Direct and Overlapping Debt			<u><u>\$ 470,807,040</u></u>
Total Net Direct and Estimated Overlapping Debt per Capita			<u><u>\$ 6,811</u></u>

Source - Tax Department records of the various governments and the financial advisor for the city.

City of Sugar Land, Texas
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES
FOR GENERAL LONG-TERM DEBT
TO TOTAL GENERAL EXPENDITURES
Last Ten Fiscal Years

Fiscal Year		Principal	Interest and Fiscal Charges	Total Debt Service Requirements	Total General Expenditures	Ratio of Debt Service Requirements to Expenditures
1995	\$	3,912,774	\$ 2,517,756	\$ 6,430,530	\$ 27,106,244	23.72
1996		3,630,555	3,548,052	7,178,607	30,222,760	23.75
1997		4,008,376	5,450,532	9,458,908	40,111,643	23.58
1998		6,904,020	6,855,789	13,759,809	45,144,043	30.48
1999		7,735,973	7,555,493	15,291,466	52,496,771	29.13
2000		9,018,313	6,482,692	15,501,005	49,765,533	31.15
2001		8,936,948	6,889,026	15,825,974	63,323,385	24.99
2002		8,809,557	9,409,913	18,219,470	72,943,440	24.98
2003		10,751,153	8,388,311	19,139,464	79,770,025	23.99
2004		12,782,803	7,003,944	19,786,747	84,114,349	23.52

This schedule reflects general long-term debt, which includes general obligation bonds, certificates of obligation, assumed debt of utility districts, component unit debt and obligations under capital leases.

City of Sugar Land, Texas

REVENUE BOND COVERAGE

Last Ten Fiscal Years

Fiscal Year	Gross Revenue (A)	Total Operating Expenses (B)	Net Revenue Available for Debt Service	Revenue Bond Debt Service Requirements (C)			Times Coverage
				Principal	Interest	Total	
<u>Water and Wastewater</u>							
1995	\$ 7,911,680	\$ 4,813,485	\$ 3,098,195	\$ 500,000	\$ 382,688	\$ 882,688	3.51
1996	9,307,965	5,878,895	3,429,070	500,000	338,438	838,438	4.09
1997	9,053,252	6,008,735	3,044,517	440,000	206,390	646,390	4.71
1998	13,505,304	8,407,366	5,097,938	430,000	328,535	758,535	6.72
1999	(D) 15,046,665	6,949,945	8,096,720	960,000	920,425	1,880,425	4.31
2000	16,888,221	7,446,707	9,441,514	1,055,000	814,913	1,869,913	5.05
2001	14,649,536	8,594,033	6,055,503	1,060,000	772,487	1,832,487	3.30
2002	14,940,922	8,254,580	6,686,342	1,235,000	811,184	2,046,184	3.27
2003	15,496,354	8,121,718	7,374,636	1,250,000	837,972	2,087,972	3.53
2004	15,941,085	9,931,943	6,009,142	1,255,000	788,056	2,043,056	2.94
<u>First Colony Utility System - Master District</u>							
1995	2,032,480	912,989	1,119,491	335,000	781,928	1,116,928	1.00
1996	3,694,387	1,721,090	1,973,297	360,000	759,383	1,119,383	1.76
1997	4,548,033	1,791,459	2,756,574	385,000	733,640	1,118,640	2.46
1998	4,701,948	2,097,330	2,604,618	465,000	844,635	1,309,635	1.99
<u>Airport</u>							
1995	2,356,664	1,797,473	559,191	200,000	157,618	357,618	1.56
1996	2,379,999	2,004,583	375,416	200,000	141,018	341,018	1.10
1997	2,422,428	2,104,516	317,912	200,000	125,662	325,662	0.98
1998	2,679,216	2,078,928	600,288	250,000	116,425	366,425	1.64
1999	3,005,328	2,313,619	691,709	250,000	101,500	351,500	1.97
2000	3,623,701	3,094,860	528,841	250,000	86,325	336,325	1.57
2001	3,811,472	3,229,487	581,985	250,000	70,900	320,900	1.81
2002	4,300,880	3,227,639	1,073,241	250,000	55,225	305,225	3.52
2003	4,758,212	3,651,828	1,106,384	290,000	110,106	400,106	2.77
2004	6,132,075	4,730,288	1,401,787	300,000	86,349	386,349	3.63
<u>Sugar Land Development Corporation - Component Unit</u>							
2002	3,230,044	1,493,660	1,736,384	895,000	198,869	1,093,869	1.59
2003	3,425,222	698,133	2,727,089	920,000	160,300	1,080,300	2.52
2004	3,757,325	462,848	3,294,477	900,000	121,625	1,021,625	3.22
<u>Sugar Land 4B Corporation - Component Unit</u>							
2002	3,209,496	1,720,701	1,488,795	890,000	779,354	1,669,354	0.89
2003	3,383,331	392,250	2,991,081	935,000	726,885	1,661,885	1.80
2004	3,728,784	287,230	3,441,554	980,000	671,829	1,651,829	2.08

(A) Gross revenue as defined in the revenue bond ordinances, includes operating and non-operating revenue and excludes capital contributions (grant revenue), and capital recovery fees.

(B) Total expenses, as defined in the revenue bond ordinances, do not include amortization, depreciation, and bond interest and fiscal charges.

(C) Debt service requirements are based on the expected debt service payments for the following fiscal year.

(D) The City Water and Wastewater system and First Colony System were combined in 1999.

Table 13

City of Sugar Land, Texas

PRINCIPAL TAXPAYERS

September 30, 2004

Taxpayer	Type of Business	2003 Assessed Valuation (A)	Percent of Total Assessed Valuation
1. Lakepointe Assets, L.L.C.	Real Estate/Engineering	\$ 84,739,670	1.49 %
2. Sugar Land Telephone Co. (Alltel)	Telephone Utility	62,968,610	1.11
3. Sugar Creek Place, L.P.	Commercial Building	54,281,090	0.96
4. Nalco Energy Services	Chemical Manufacturing	44,300,120	0.78
5. Tramontina USA, Inc.	Manufacturing	42,985,694	0.76
6. Suntron	Manufacturing/Distribution	40,461,285	0.71
7. Amerisource Bergen Corp.	Pharmaceutical/Medical	36,309,696	0.64
8. GGP - Sugar Land Mall, L.P.	Shopping Center	33,886,230	0.60
9. STC, MFG Group-SPC	Energy Technology	32,113,250	0.57
10. Sugar Land Hotel Associates, L.P.	Hotels	<u>30,733,400</u>	<u>0.54</u>
		462,779,045	8.16
Other		<u>5,220,395,377</u>	<u>91.84</u>
Total		<u><u>\$ 5,683,174,422</u></u>	<u><u>100.00 %</u></u>

(A) Assessed valuation is net of exemptions.

Source - Tax assessor/collector's records.

City of Sugar Land, Texas

SCHEDULE OF INSURANCE IN FORCE

September 30, 2004

Type of Coverage	Carrier	Policy Number	Per Occurrence
Liability			
General Liability	Texas Municipal League	7115-01	\$ 10,000,000
Law Enforcement Liability	Texas Municipal League	7115-01	10,000,000
Errors and Omissions	Texas Municipal League	7115-01	10,000,000
Auto	Texas Municipal League	7115-01	10,000,000
Airport Liability	Texas Municipal League	7115-01	
Operations			20,000,000
Personal/Advertising Injury			20,000,000
Products/Completed Operations			20,000,000
Fire Damage			50,000
Hangarkeepers			20,000,000
Hangarkeepers per Aircraft			5,000,000
Property			
Auto Physical Damage	Texas Municipal League	7115-01	ACV
Real and Personal Property	Texas Municipal League	7115-01	81,699,745
Mobile Equipment	Texas Municipal League	7115-01	606,601
Boiler and Machinery	Texas Municipal League	7115-01	1,000,000
Workers Compensation	Texas Municipal League	7115-01	Statutory
Fidelity			
Public Employee Dishonesty	Texas Municipal League	7115-01	250,000
Forgery	Texas Municipal League	7115-01	100,000

Table 14

Annual Aggregate		Deductible	Premium
\$	10,000,000	\$ 10,000	\$ 47,204
	10,000,000	10,000	57,334
	10,000,000	10,000	83,075
	N/A	10,000	41,651
			28,673
	20,000,000	None	
	20,000,000	None	
	20,000,000	None	
	N/A	None	
	N/A	25,000	
	N/A	25,000	
	N/A	10,000	35,516
	N/A	10,000	136,746
	N/A	1,000	2,784
	N/A	10,000	
	Statutory	None	255,161
	N/A	10,000	2,590
	N/A	10,000	401

City of Sugar Land, Texas
PROPERTY VALUE AND CONSTRUCTION
Last Ten Fiscal Years

Fiscal Year	New Commercial Construction Value	New Residential Construction Value	Real Property Value
1995	\$ 61,460,433	\$ 20,186,107	\$ 1,761,991,524
1996	27,405,478	19,230,276	1,800,979,736
1997	95,740,562	19,949,984	2,211,781,458
1998	103,261,024	40,064,667	3,330,270,397
1999	61,745,139	45,148,629	3,499,138,542
2000	44,381,129	54,586,730	3,758,883,907
2001	73,696,858	35,668,431	4,014,729,556
2002	81,205,725	41,612,777	4,333,658,540
2003	67,566,754	66,132,771	4,546,891,571
2004	78,674,241	47,099,346	4,803,703,257

City of Sugar Land, Texas

COMPUTATION OF LEGAL DEBT MARGIN

September 30, 2004

Net assessed value		\$ 5,683,174,422
		<u>5,683,174,422</u>
Total Appraised Value		<u><u>\$ 5,683,174,422</u></u>
<u>Debt Limit</u>		
Debt Limit (A)	(B)	\$ 1,510,958,186
Amount of debt applicable to debt rate limit:		120,796,470
Less:		
Assets in debt service fund available for payment of principal on General Obligation Bonds		<u>6,653,939</u>
Total Amount of Debt Applicable to Debt Limit		<u>114,142,531</u>
Estimated Legal Debt Margin		<u><u>\$ 1,396,815,655</u></u>

	<u>Rate per \$100 Valuation</u>	
<u>Debt Tax Rate Limit</u>		
Debt tax rate limit - \$2.50 per \$100 valuation (A)	\$ 2.50000	\$ 142,079,361
Amount of current debt service payments applicable to debt rate limit - General Obligation Bonds	<u>0.21252</u>	<u>12,077,882</u>
Legal Debt Service Rate Margin	<u><u>\$ 2.2875</u></u>	<u><u>\$ 130,001,478</u></u>

- (A) The City has no general obligation legal debt limit other than a ceiling on tax rates as specified by the State of Texas. The prescribed maximum is \$2.50 per \$100 of valuation. Currently, the City's debt service rate is \$.21252 per \$100 of assessed valuation.
- (B) Assuming 20 year debt amortization and an average interest rate of 5.5%, the present value of the maximum debt service tax levy would approximate this amount.

City of Sugar Land, Texas

DEMOGRAPHIC STATISTICS

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population (A)</u>	<u>Per Capita Income (B)</u>	<u>Median Age (B)</u>	<u>School Enrollment (C)</u>	<u>Unemployment Rate (D)</u>
1995	37,583	\$ 18,216	31.0	11,479	5.7
1996	45,631	21,174	31.6	13,443	4.7
1997	46,158	21,040	31.7	13,063	4.5
1998	59,448	31,177	36.2	18,510	3.1
1999	61,587	35,273	34.5	18,596	3.0
2000	62,637	37,231	34.5	18,909	3.1
2001	63,328	42,076	33.6	18,022	2.8
2002	65,255	42,421	37.1	18,153	3.8
2003	66,129	37,839	37.4	18,183	5.1
2004	69,129	36,816	37.2	18,493	4.1

(A) Estimated.

(B) Source - Greater Fort Bend Economic Development Council.

(C) Source - Fort Bend Independent School District.

(D) Source - Texas Workforce Commission data for Houston SMSA and Greater Fort Bend Economic Development Council.

Table 18

City of Sugar Land, Texas

MISCELLANEOUS STATISTICAL DATA

September 30, 2004 and 2003

<u>Date of Incorporation</u>	1959	
<u>Form of Government</u>	Council-Manager	
<u>Area</u>	29.4 square miles	
	<u>2004</u>	<u>2003</u>
<u>Population</u>	69,129	66,129
<u>Fire Protection</u>		
Number of stations in city limits	5	5
Number of stations operated through agreements with MUDs served in ETJ	1	1
Number of certified officers	97	97
<u>Police Protection</u>		
Number of stations	1	1
Number of sworn officers	109	109
<u>Education (Within City Boundaries)</u>		
Attendance centers	18	18
Number of students	18,493	18,183
<u>Water Treatment and Production</u>		
Production number of connections	21,696	21,308
Miles of water mains	329	323
Distribution number of connections	35,210	34,542
<u>City System</u>		
Average daily production (millions of gallons)	12.02	13.04
Maximum daily production (millions of gallons)	21.61	29.04
Average monthly production (millions of gallons)	371.13	396.67
Average monthly billing	315.50	336.48
Average monthly flushing program (millions of gallons)	1.40	1.12
Efficiency ratio	90.61%	91.91%
<u>Wastewater Collection and Treatment</u>		
Production number of connections	20,504	20,312
Miles of sanitary sewers	319	316
Number of connections	33,325	32,725
Average daily treatment (millions of gallons)	8.75	8.59
Annual treatment (millions of gallons)	3,195	3,134
<u>Miles of Storm Sewers</u>	224	224
<u>Miles of Streets</u>	268	268
<u>Park Facilities</u>		
Number of parks	18	18
Park acreage		
Developed	351	348
Undeveloped	547	529
<u>Employees - Budget (Full Time Equivalent)</u>	483	471
<u>Airport</u>		
Number of gallons of fuel sold	2,336,844	1,933,838
Fuel sales	\$5,367,821	\$4,020,854

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